

Attachment List

- 4. Accept the City of Milpitas Comprehensive Annual Financial Report, Component Unit Financial Statements and Other Related Annual Audited Reports for the Fiscal Year Ended June 30, 2014 (Staff Contact: Jane Corpus, 408-586-3125)**

Attachments:

- 4A. Comprehensive Annual Financial Report for FY 2013-14
- 4B. Single Audit Report for FY 2013-14
- 4C. Agreed Upon Procedures report on Compliance with the Appropriations Limit Increment
- 4D. Bicycle/Pedestrian Projects Financial Report for FY 2013-14
- 4E. Memorandum on Internal Control and Required Communications for FY 2013-14



^{4A} Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014



Provider of a full-range of municipal services

City of Milpitas

CALIFORNIA

CITY OF MILPITAS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

Prepared by
THE DEPARTMENT OF FINANCIAL SERVICES



INTRODUCTORY SECTION

CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

Page

INTRODUCTORY SECTION:

Table of Contents	i
Letter of Transmittal.....	v
Directory of City Officials	xiv
Map of City's Location	xv
Organization Chart	xvi
GFOA Certificate of Achievement	xvii

FINANCIAL SECTION:

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	5

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position	21
Statement of Activities.....	22

Fund Financial Statements:

Governmental Funds:

Balance Sheet	26
Statement of Revenues, Expenditures, and Changes in Fund Balances	28
Reconciliation of the Net Change in Fund Balances Total Governmental Funds with the Statement of Activities.....	30
Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non GAAP Legal Basis):	
General Fund	31
Housing Authority	32

CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

Page

FINANCIAL SECTION: (Continued)

Proprietary Funds:

Statement of Net Position.....	33
Statement of Revenue, Expenses and Changes in Fund Net Position	34
Statement of Cash Flows.....	35

Fiduciary Funds:

Statement of Fiduciary Net Position	37
Statement of Changes in Fiduciary Net Position.....	38

Notes to Basic Financial Statements	39
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Supplemental Information:

Non-major Governmental Funds:

Combining Balance Sheets	100
Combining Statements of Revenues, Expenditures and Changes in Fund Balances	102
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non GAAP Legal Basis).....	104

Fiduciary Funds:

Statements of Changes in Assets and Liabilities – All Agency Funds.....	109
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CITY OF MILPITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

Page

STATISTICAL SECTION:

Net Position – Last Ten Fiscal Years	111
Changes in Net Position – Last Ten Fiscal Years	112
Fund Balances, Governmental Funds – Last Ten Fiscal Years	117
Changes in Fund Balances, Governmental Funds – Last Ten Fiscal Years	118
Assessed Value and Actual Value of Taxable Property – Last Ten Fiscal Years	120
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	121
Principal Property Tax Payers – Fiscal Year 2013-2014 and 2004-2005	122
Property Tax Levies and Collections – Last Ten Fiscal Years	123
Taxable Sales by Category – Last Ten Calendar Years	124
Direct and Overlapping Sales Tax Rates – Last Ten Fiscal Years	125
Principal Sales Tax Payers – Calendar Years 2013 and 2003	126
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	127
Bonded Debt Pledge Revenue Coverage Redevelopment Agency Tax Allocation Bonds – Last Ten Fiscal Years	128
Computation of Direct and Overlapping Debt	129
Legal Debt Margin Information – Last Ten Fiscal Years	130
Installment Payment Coverage, Sewer Certificates of Participation – Last Seven Fiscal Years	131
Bimonthly Sewer Rates by Customer Class – Last Ten Fiscal Years	132
Demographic and Economic Statistics – Last Ten Fiscal Years	133
Principal Employers – Fiscal Year 2013-2014 and 2004-2005	134
Authorized Full-Time Equivalent Employees by Function/Program – Last Ten Fiscal Years	135
Operating Indicators by Function/Program – Last Ten Fiscal Years	136
Capital Asset Statistics by Function/Program – Last Ten Fiscal Years	138





CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 www.ci.milpitas.ca.gov

November 6, 2014

Honorable Mayor, Members of the City Council and City Manager:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2014. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

A separate single audit report has been prepared in conformity with the provisions of the Federal Single Audit Act amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments."

THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Economic Development Corporation (the EDC), the Milpitas Housing Authority (the Housing Authority) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. The EDC, Housing Authority, and Terrace Gardens are separate legal entities from the City and are controlled by the City. The EDC and the Housing Authority have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements.

Milpitas is a general law city of the State of California. The City was incorporated in 1954 and operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services, and appointment of the City Manager and City Attorney. There are four City Council members who are elected at-large for staggered four-year terms, and the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services. These include: police, fire, community services, public improvements, planning, building and public facility inspection, engineering, water and sewer utilities, and general administrative services.

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks,

Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Veterans Commission, Public Art Committee and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

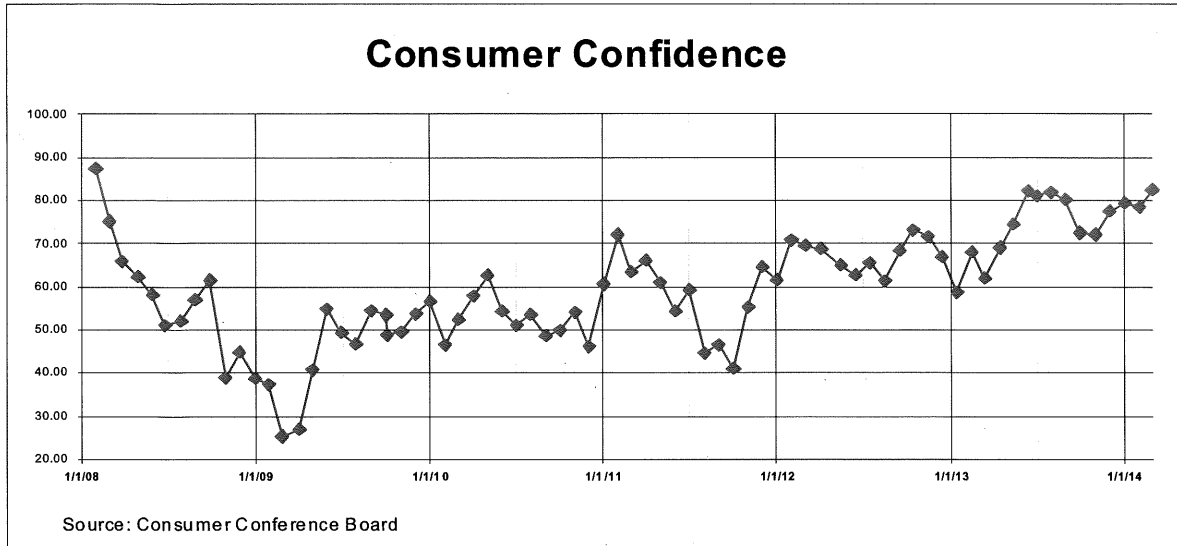
Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the “Crossroads of Silicon Valley,” with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 40 years, the population growth has increased from 26,561 in 1970 to over 66,790 in 2010 (latest census). The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2001 and 2004, over 130,000 jobs were lost as a result of the economic recession. Between 2005 and 2007, the local economy began to recover slowly until 2008 when the economy went into global recession due to subprime mortgages, plummeting home sales and meltdown of the financial market. This region was severely impacted due to a concentration of the high-tech industry, heavy reliance on exports, decline of home prices, and reduced consumer spending. Milpitas was similarly impacted because of its location and comparable economic mix. In 2012, the local economy has finally emerged from the most unprecedented and prolonged economic recession in recent history. The housing market also showed substantial recovery. The section below entitled “Major Development Activities in the City” will discuss some of the development activities that are occurring in Milpitas.

There are approximately 1,448 acres or 2.6 square miles of land area in the City limits designated for various industrial uses; about 113 acres are vacant and available in parcels ranging in size from 3 acre to 35 acres. Included in this acreage total are nine industrial parks and 438 manufacturing plants. An estimated 410 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

The leading economic segments are office equipment, apparel stores, restaurants, and electronic equipment. The five largest manufacturing employers are Cisco Systems, Inc., KLA-Tencor Corporation, SanDisk Corporation, Linear Technology, Inc. and Flextronics. Several of these top employers, including SanDisk Corporation and Linear Technology, make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are the Milpitas Unified School District and Vitas Healthcare Corporation of CA.

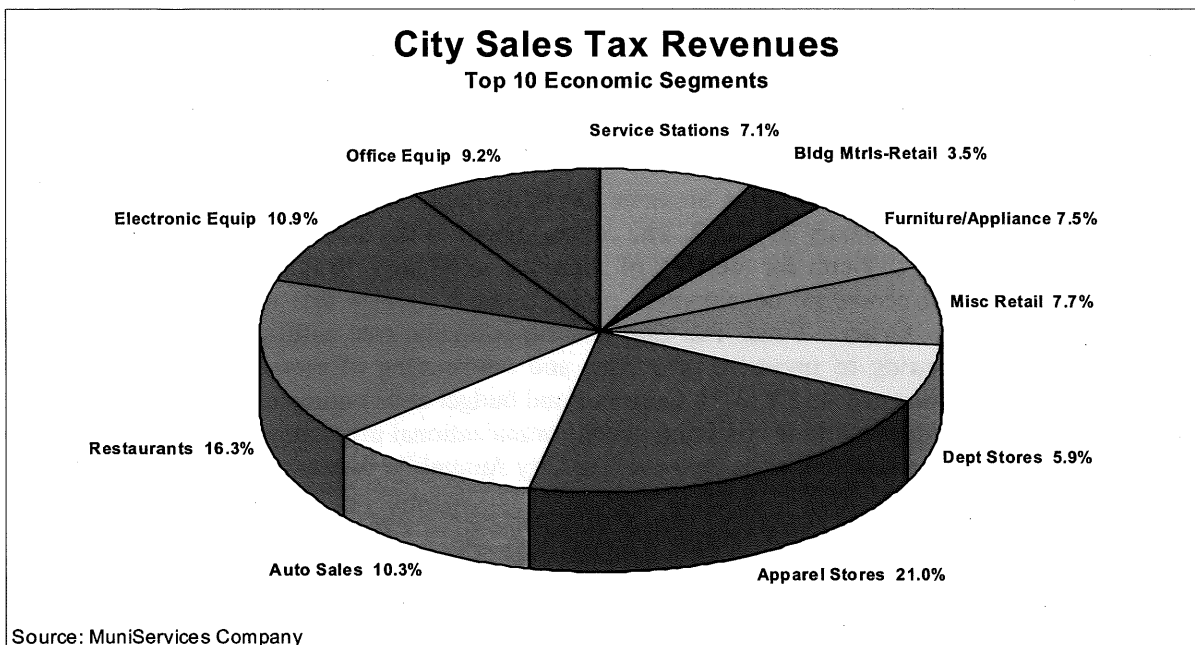
Consumer Confidence Level

The latest consumer confidence survey report showed that the U.S. consumer sentiment in March 2014 reached an all time high of 82.30 since 2008. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending drives more than 65% of the U.S. Gross Domestic Product, the index is a good indicator that when consumers' confidence is high, consumers would likely make more purchases thus further boosting the economy.



Top Ten Sales Tax Generators by Economic Segment

The chart below provides a snapshot of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about \$16.5 million, with the top ten economic segments generating about \$14.2 million. Economic segments such as apparel stores, restaurants, and miscellaneous retail increased over a year ago, while electronic equipment, auto sales, and office equipment segments decreased.



Many of the major activities initiated in FY13-14 were consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown and the Transit Area that will enhance the City's long-term financial condition.

Major Development Activities in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities undertaken by outside agencies include the construction of a County Health Center, a parking garage and a 103-unit Senior Housing apartment building. Major residential development includes completion of the Centria West project for 366 condominium dwelling units. Other development in process includes 200 housing units developed by Shea Homes.

Transit Area Specific Plan – The City adopted a Transit Area Specific Plan in June 2008 which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. Currently there are about 1,400 housing units in the Transit Area that are under various stages of development.

Residential Development – Although residential development activities in this region were impacted by the soft housing market in the last few years, there is a renewed interest in residential developments recently. Outside of the Midtown and Transit Area, there are several residential developments that are either under construction or completed and occupied. These projects include Murphy Ranch Townhomes (285 townhomes), Robson Homes (83 units), Orchid (80 single family detached units) and Sinclair Renaissance (80 single family detached units).

Non-residential Development – Major commercial construction includes expansion and tenant improvements of FireEye, a malware protection company. Building permits were also issued to Flextronics, Solixel, KLA-Tencor and Micron for tenant improvements. Micron is a semiconductor business relocated from San Jose.

Budget Strategies in Fiscal 2013-14

As a result of the ruling by the California Supreme Court, all the redevelopment agencies throughout the State were dissolved as of January 31, 2012. The consequences of the dissolution of the Redevelopment Agency were particularly difficult for the City of Milpitas. In addition to the loss of funding for many major infrastructure and economic development projects, the City also lost approximately \$7 million annually allocated to the General Fund. The City undertook drastic cost cutting measures that included staff reduction, restructuring of non-core programs, and outsourcing of certain maintenance services. Nevertheless, the City balanced its FY13-14 General Fund budget and continued to focus on delivery and preservation of core services while maximizing overall organizational efficiency and cost savings. These accomplishments will be discussed in the next section, City Annual Performance Report.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2013-2014, City staff initiated and implemented various programs and projects that significantly improved services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

Fire

- Responded to 4,838 emergency incidents with an average response time of 4:24 minutes.
- Presented fire prevention information at over 45 public events.
- Conducted 1,180 plan reviews, issued 1,062 approvals/permits and performed 5,534 fire inspections.
- Certified 555 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

Police

- Reduced residential burglaries by 23% in 2013.
- Reduced average emergency response time to 2:31 minutes in FY12-13, the lowest average emergency response time in the last thirteen years.
- Reduced auto theft by 17% in 2013.
- Concluded the 15-month investigation of the murder of the 7-11 employee with the arrest of 4 suspects.

Engineering

- Completed construction of the Milpitas Sports Center locker rooms improvements and open to the public for use prior to the 4th of July events.
- Completed the City's Long Term Trash Reduction Plan.
- Completed the City-wide Storm Drain Master Plan & Sewer System Management Plan.
- Completed the tests of 1800 backflow devices in the City.

Public Works Maintenance

- Coordinated water system shutdown for development and BART construction.
- Investigated 2,280 customer service requests and provided immediate response for urgent/safety related service requests.
- Provided cross-training and safety training to staff to improve efficiency and reduce injuries.
- Responded immediately to all roadway hazards, graffiti abatement, and emergency storm service requests.

Planning/Neighborhood Services

- Established new Environmental/CEQA consulting services.
- Completed Housing Element Zoning Ordinance Amendments pursuant to State Law.
- Processed over 700 code enforcement service requests and code violations.
- Managed and administered 1,200 affordable Housing units for Milpitas Housing Authority.

Human Resources and Recreation

- Adhered to the Affordable Care Act (ACA) requirements regarding the Marketplace Coverage (Exchange) Notices for Employees.
- Continued to work on recruitments on a timely basis for all departments. To date approximately 30 recruitments have been finalized.
- Processed 1,340 memberships in the first 7 months of the fiscal year for the Senior Center.
- Successfully completed two public art installations (City Hall Minute Man and Cartwheel Kids move) and one public art maintenance project at Augustine Park.

Building & Safety

- Utilized iPad for inspection in the field to streamline and improve efficiency in the inspection process.
- Introduced online application for extension of plan check and permits.
- Enhanced public outreach by sending e-newsletters to more than 3,000 customers.
- Introduced electronic sign-in system in Permit Center to improve customer service.

Administration

- Eliminated the General Fund budget structural deficit from \$12 million in fiscal 2012 to a balanced budget in fiscal 2014.
- Obtained a “AAA” general credit rating from Standard & Poor’s rating services.
- Developed long-term fiscal planning policies.
- Launched Citywide Strategic Plan to update City’s visions, values and goals.

City Attorney

- Successfully prevailed in five significant lawsuits.
- Provided hands-on legal guidance through Redevelopment Agency wind down.
- Advised management through continuing labor negotiations.
- Represented the City in numerous administrative/court cases.

Information Services

- Completed the MyMilpitas mobile app for iPhone and iPad.
- Completed CAD system upgrade.
- Completed Document Imaging system upgrade.
- Maintained network availability at 99.9% of the time.

Finance

- Developed an updated Cost Allocation Plan (CAP) and worked with departments to update fee schedule based on updated CAP.
- Worked with the County Auditor and State Department of Finance to receive the “Finding of Completion” for the Successor Agency of the City of Milpitas Redevelopment Agency.
- Developed and implemented real property lien process.
- Bid various frequently used commodities and services and created annualized contracts with the vendors to achieve savings and efficiency.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority in an amount not to exceed 1% of the total General Fund budget, although the appropriations must be reported to the City Council on a periodic basis. Periodic reports of revenue, expense, and investment activity are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported as an assignment of the fund balance. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

Category and Fund Type

Governmental Funds:	General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds
Proprietary Funds:	Enterprise Funds and Internal Service Fund
Fiduciary Funds:	Private-Purpose Trust Fund and Agency Funds

Governmental Funds: The basic financial statements necessary to fairly present the financial position and operating results from major governmental funds are the balance sheet, and the statement of revenues, expenditures and changes in fund balance. These funds are maintained using the modified accrual basis of accounting, which is more thoroughly explained in the Notes to the Financial Statements.

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net position, statement of revenues, expenses, and changes in fund net position, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as a Private-Purpose Trust Fund and Agency Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FINANCIAL ANALYSIS

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Milpitas' MD&A can be found immediately following the report of the independent auditors.

INDEPENDENT AUDIT

Each year the City requires an independent annual audit of the City's financial records, the results of its operations, and cash flows. This report includes the opinion of the City's independent auditors, Maze & Associates, for the basic financial statements of the City. In addition, a separately issued document contains the auditors' reports on the internal control structure and compliance with applicable laws and regulations related specifically to the single audit.

AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for twenty-five of the last twenty-six years (fiscal years ended 1988-2013). The 1992-93 report was not submitted to GFOA due to timing delays.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I extend my appreciation to the entire staff in the Finance Department and other departments who assisted in the process of compiling the information for this report. In addition, I extend a special "thank you" to our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I sincerely thank the Mayor, members of the City Council and City Manager, for their support, interest, and integrity in directing the financial affairs of the City in a responsible, professional, and progressive manner.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Emma C. Karlen". The signature is fluid and cursive, with the first name "Emma" and last name "Karlen" clearly distinguishable.

Emma C. Karlen, CPA
Assistant City Manager/Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2014

City Council

Mayor	Jose S. Esteves
Vice-Mayor	Althea Polanski
Councilmember	Debra Giordano
Councilmember	Armando Gomez, Jr
Councilmember	Carmen Mantano

City Manager
Thomas C Williams

Police Chief
Steve Pangelinan

Director of Financial Services
Emma Karlen, CPA

Fire Chief
Robert Mihovich, Interim

City Clerk
Mary Lavelle

City Attorney
Michael Ogaz

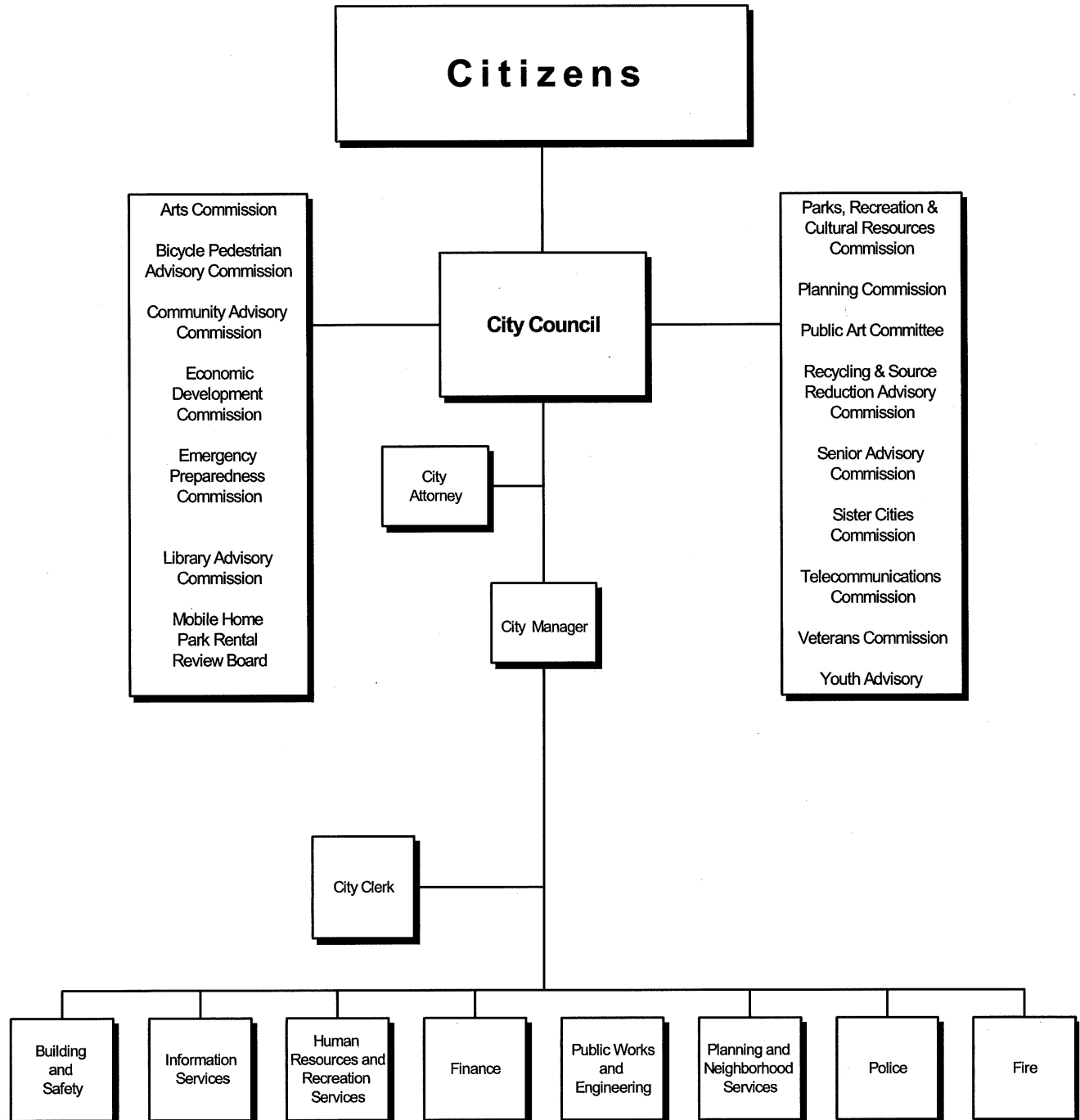
Chief Information Officer
Mike Luu, Interim

Human Resources and Recreation Director
Carmen Valdez

Public Works Director/City Engineer
Jeff Moneda, PE

Planning & Neighborhood Svc Director
Steven McHarris

Chief Building Officer
Keyvan Irannejad





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Milpitas
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Milpitas, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2013, which represent 1.63%, 1.70%, and 0.88% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by another auditor, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2014, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 10E, the City restated beginning fund balance and net position of three funds.

The emphasis of this matter does not constitute a modification of our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mane & Associates

Pleasant Hill, California

October 16, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2014. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2014 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2014 reflect continued economic recovery in the South Bay region, primarily driven by improved employment and rebound of the housing market. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2014 was at 5.5%, an improvement over last year's 6.9%. The property tax revenue has shown substantial recovery due to double digit increase of median home prices. The foreclosures and property tax appeals have been trending downward. Building permit fees and Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy.

Fiscal 2014 financial highlights include the following:

City-wide:

- The City's total net position was \$599.7 million at June 30, 2014. Of this total, \$433.8 million were Governmental assets and \$166.0 million were Business-type assets.
- City-wide revenues include program revenues of \$73.6 million, general revenues and transfers of \$61.8 million, and a special item of \$49.8 million totaling \$185.2 million, an increase of \$68.3million from the prior year's total of \$116.9 million.
- Total City-wide expenses were \$114.7 million, an increase of \$9.4 million from the prior year's \$105.3 million.

Fund Level:

- Governmental Fund balances were \$116.8 million, a decrease of \$7.1 million from fiscal 2013.
- Governmental Fund revenues were \$99.6 million in fiscal 2014, up \$17.4 million from the prior year's \$82.2 million.
- Governmental Fund expenditures were \$80.6 million in fiscal 2014, an increase of \$3.4 million from fiscal 2013's level of \$77.2 million.
- General Fund revenues of \$76.8 million represented an increase of \$14.1 million from fiscal 2013's revenues of \$62.7 million.
- Total other financing sources of the General Fund were \$3.1 million in fiscal 2014 while fiscal 2013 had a total other financing sources of \$4.4 million.
- General Fund balance of \$48.9 million at the fiscal 2014 year-end was \$16.1 million more than the fund balance at fiscal 2013 year-end.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

- 1) Introductory section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 4) Supplementary Information,
- 5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
- 6) Statistical information.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net position for the year.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities, deferred inflows/outflows of resources and fund balances, but exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these Non-major funds. Major Funds are explained below.

The City is the Successor Agency of the Milpitas Redevelopment Agency. It holds funds to make payments according to the enforceable obligations schedules and eventually dispose of other assets and properties of the former Redevelopment Agency for the benefits of the taxing agencies. The City is also the depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of the Successor Agency, Local Improvement Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

Together, all these statements are called the Basic Financial Statements.

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, parks & recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The City-wide financial statements can be found in pages 21-23 of this report.

All of the City's enterprise activities, including water, recycled water, and sewer are also reported in the basic financial statements. Unlike governmental services, these activities are supported by charges paid by users based on the amount of their service consumption.

The City's governmental activities include the activities of three other separate legal entities, Milpitas Economic Development Corporation ("EDC"), the Milpitas Housing Authority ("Housing Authority"), and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the citywide financial statements.

Enterprise and internal service fund financial statements are prepared on the full accrual basis and include all these funds' assets and liabilities, both current and long-term.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.

The City has four other Major Governmental Funds in fiscal 2014 in addition to the General Fund. These are the Economic Development Corporation Fund, Housing Authority Fund, the Street Improvement Fund and the Transit Area Impact Fee Fund, each of which is discussed in detail below.

Both of the City's Enterprise Funds are reported as Major Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major governmental funds that are Special Revenue Funds. The City has two major Special Revenue Funds, the Economic Development Corporation Fund and the Housing Authority Fund, however, only the Housing Authority adopts an annual budget.

Fiduciary Statements

The City is the Successor Agency of the former Redevelopment Agency and the agent for certain local improvement districts ("Districts"). The City holds property tax revenue distributed from the Redevelopment Property Tax Trust Fund ("RPTTF") to pay outstanding recognized obligations for the Successor Agency. The City also holds amounts collected from property owners which await transfer to the Districts' bond trustees. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position and the Agency Funds Statement of Changes in Assets and Liabilities.

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2013 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

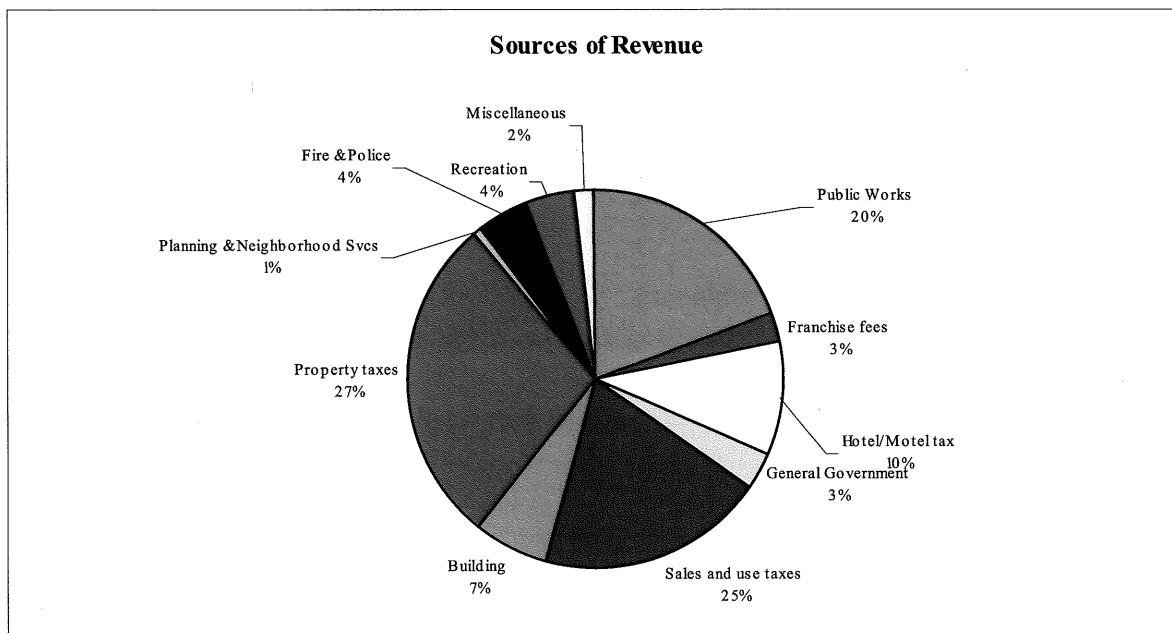
Table 1
Governmental Net Position at June 30
(in Millions)

	Governmental Activities	
	2014	2013 (Restated)
Cash and investments	\$106.2	\$122.1
Other assets	66.5	52.6
Capital assets	298.0	227.2
Total assets	470.7	401.9
Long-term debt outstanding	6.3	10.2
Other liabilities	30.6	24.0
Total liabilities	36.9	34.2
Net position:		
Net investment in capital assets	291.7	217.0
Restricted	90.8	85.8
Unrestricted	51.3	64.9
Total net position	\$433.8	\$367.7

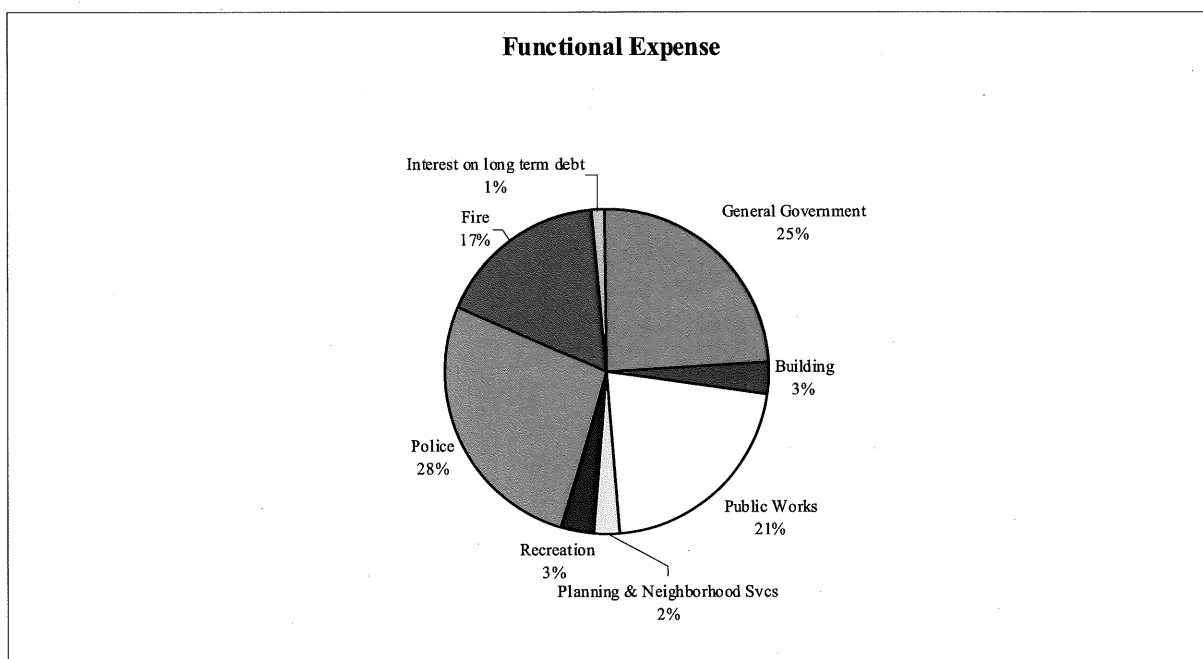
The City's governmental net position was \$433.8 million at June 30, 2014, an increase of \$66.1 million from 2013. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments decreased \$15.9 million principally due to settlement of the RDA asset transfer lawsuit with the State of California and the County of Santa Clara that required a cash payment of almost \$41 million from the City of Milpitas entities.
- Other assets increased \$13.9 million from last year primarily due to the property purchased by the Economic Development Corporation that was reclassified from capital assets to properties held for resale. The properties were transferred to the City as part of the lawsuit settlement mentioned above.
- Capital assets increased \$70.8 million from last year, resulting from \$15.6 million depreciation, offset by \$86.2 million asset additions, net of retirements in fiscal 2014.
- Long-term debt decreased \$3.9 million due to scheduled debt repayments.
- Other liabilities increased \$6.6 million due to increased accounts payable, uninsured claims payable and unearned revenue.

Fiscal Year 2014 Governmental Activities



As the Sources of Revenue Chart above shows, \$27.6 million or 27% of the City's fiscal 2014 governmental activities revenue came from property taxes, while \$19.0 million or 25% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of Fiscal 2014's capital assets is shown in detail at Table 8.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Position as summarized below.

Table 2
Changes in Governmental Net Position
(in Millions)

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
		<u>(Restated)</u>
Expenses		
General Government	\$21.1	\$15.3
Building	2.7	2.3
Public Works	18.7	17.7
Planning & Neighborhood Svcs	2.1	2.6
Recreation	3.0	3.1
Police	23.4	21.7
Fire	15.1	15.8
Interest on long term debt	0.2	0.2
Total expenses	<u>86.3</u>	<u>78.7</u>
Revenues		
Program revenues:		
Charges for services	16.3	13.7
Operating contributions and grants	6.2	7.5
Capital Grants	15.5	8.3
Total program revenues	<u>38.0</u>	<u>29.5</u>
General revenues:		
Taxes:		
Property taxes	27.6	20.5
Sales and uses taxes	19.0	20.2
Hotel/Motel taxes	9.4	7.9
Other taxes	0.7	0.5
Franchise fees	3.5	3.3
Investment earnings	0.8	0.3
Miscellaneous	0.2	0.2
Total general revenues	<u>61.2</u>	<u>52.9</u>
Total Revenues	<u>99.2</u>	<u>82.4</u>
Surplus (Deficit) before transfers	<u>12.9</u>	<u>3.7</u>
Special item	<u>49.8</u>	
Transfers	<u>3.4</u>	<u>3.0</u>
Changes in net position	<u>66.1</u>	<u>6.7</u>
Beginning net position, as restated	<u>367.7</u>	<u>361.0</u>
Ending net position	<u>\$433.8</u>	<u>\$367.7</u>

Table 2 compares fiscal 2014 expenses and revenues with those of fiscal 2013. Expenses increased by \$7.6 million in fiscal 2014, due to an increase in uninsured claims and an increase in salaries and benefits, depreciation expense and contractual services. Almost all of the program expenses experienced increases due to an increase in salaries and benefits. General Government program expenses increased \$5.8 million due to the increase uninsured claims and salaries and benefit expenses.

Table 2 shows that total government revenues increased \$16.7 million in fiscal 2014. Program revenues increased \$8.5 million while general revenues increased \$8.2 million. The increase in program revenues was due to increased charges for services and increased operating grants. The increase in general revenues was mainly due to transient occupancy tax and property tax revenue. Property tax revenue in fiscal 2014 was \$7.1 million more than last year due to a one-time increased distribution from the Redevelopment Property Tax Trust Fund (RPTTF) as a result of the lawsuit settlement. The settlement of the lawsuit required the City and other entities to remit approximately \$41 million to the County Controller. The proceeds were subsequently distributed to all the taxing entities within the Redevelopment Area. The City is one of the taxing entities and received approximately \$6.3 million from the RPTTF. Sales tax revenue in fiscal 2014 was \$1.2 million less than fiscal 2013, due to the loss of a major sales tax generator. Transient Occupancy Tax increased \$1.4 million in fiscal 2014 reflecting recovery in the economy. The increase of investment earnings by \$0.5 million in fiscal 2014 was due to an increase in cash and investments. A special item of \$49.8 million was reported in fiscal 2014 due to the settlement with the Department of Finance and the County of Santa Clara on the previously mentioned lawsuit. Detail of the lawsuit settlement can be found in Notes 14 and 17F.

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, planning & neighborhood services, parks & recreation, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased \$1.0 million. The primary reasons for increased program revenues were due to economic recovery and increased capital grants.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2014	2013
General Government	\$(17.9)	\$(10.3)
Building	3.8	2.3
Public Works	.5	(8.5)
Planning & Neighborhood Services	(1.4)	(1.7)
Recreation	1.1	3.1
Police	(21.2)	(19.7)
Fire	(13.0)	(14.2)
Interest on long term debt	(0.2)	(0.2)
Totals	\$(48.3)	\$(49.2)

Business-type Activities

Table 4
Business-Type Net Position at June 30
(in Millions)

	Business-Type Activities	
	2014	2013 (Restated)
Cash and investments	\$52.7	\$49.2
Other assets	7.7	8.2
Capital assets	114.8	113.8
Total assets	175.2	171.2
Other liabilities	2.3	2.4
Long-term Debt	6.9	7.3
Total liabilities	9.2	9.7
Net position:		
Net investment in capital assets	107.8	106.5
Restricted	37.3	35.3
Unrestricted	20.9	19.8
Total net position	\$166.0	\$161.5

The net position of business-type activities were \$166.0 million in fiscal 2014, an increase of \$4.5 million from fiscal 2013. Total assets increased \$4.0 million while total liabilities decreased \$0.5 million. The increase in net position was due to increased customer service charges and capital contributions for the Water and Sewer Funds.

Table 5
Changes in Business-Type Net Position
(in Millions)

	Business-Type Activities	
	2014	2013 (Restated)
Expenses		
Water Utility	\$17.4	\$17.2
Sewer Utility	11.0	9.4
Total expenses	<u>28.4</u>	<u>26.6</u>
Revenues		
Program revenues:		
Charges for services	34.1	32.4
Operating Grant	0.1	0.1
Capital Grants	1.4	2.0
Total program revenues	<u>35.6</u>	<u>34.5</u>
General revenues:		
Investment earnings	0.7	0.1
Total general revenues	<u>0.7</u>	<u>0.1</u>
Total Revenues	<u>36.3</u>	<u>34.6</u>
Excess before transfers	7.9	8.0
Transfers	<u>(3.4)</u>	<u>(3.0)</u>
Changes in net position, as restated	4.5	5.0
Beginning net position	<u>161.5</u>	<u>156.5</u>
Ending net position	<u>\$166.0</u>	<u>\$161.5</u>

Table 5 compares fiscal 2014 expenses and revenues with those of fiscal year 2013. Total expenses increased by \$1.8 million in fiscal 2014 due to increased water purchase and usage. Total program revenues increased by \$1.1 million primarily due to increased charges for services and capital contributions received from developers. Total general revenue was \$0.7 million from interest earnings, \$0.6 million higher than last year due to an increase in cash available for investment. The net transfers represent reimbursements of administration costs to the General Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Table 6 below summarizes activities and balances of the governmental funds at the fund level:

Table 6
Financial Highlights of Governmental Funds at Fund Level at June 30
(in Millions)

	2014	2013 (Restated)
Total assets	\$173.3	\$190.6
Total liabilities	26.6	28.3
Total deferred inflows of resources	29.9	38.4
Total fund balances	116.8	123.9
Total revenues	99.6	82.2
Total expenditures	80.6	77.2
Total other financing sources	3.4	2.6
Total special items	27.3	

At June 30, 2014, the City's governmental funds reported combined fund balances of \$116.8 million, a decrease of \$4.8 million from last year. The fund balances of the Economic Development Corporation, Housing Authority Fund, and Other Governmental Funds decreased \$22.7 million, \$3.5 million, and \$1 million, respectively, while the fund balances of the General Fund and Transit Area Impact Fee Fund increased \$16.1 million and \$6.4 million, respectively.

Revenues at the fund level totaled \$99.6 million, an increase of \$17.4 million. Revenues for the Housing Authority Fund, Street Improvement Fund and Other Governmental Funds decreased \$1.9 million, \$1.5 million, and \$5.6 million respectively while the General Fund, Economic Development Corporation, and Transit Area Impact Fee Fund increased \$14.1 million, \$2.0 million and \$10.1 million, respectively.

Expenditures increased \$3.4 million this year to \$80.6 million from last year's \$77.2 million. The expenditures of the General Fund, Housing Authority Fund, Transit Area Impact Fee Fund and Other Governmental Funds increased \$1.7 million, \$0.2 million and \$3.9 million, respectively while the Economic Development Corporation and Street Improvement Fund decreased by \$1.3 million, and \$3.6 million, respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to \$76.8 million this fiscal year, up \$14.1 million from the prior fiscal year. Increases came from property tax, revenue, other taxes, licenses and fines, intergovernmental revenue and charges for services categories while decreases came from sales taxes, and use of money and property. Property tax revenue increased \$11.1 million due to residual distributions from the Redevelopment Property Tax Trust Fund (“RPTTF”) was recorded in the General Fund in fiscal 2014. Approximately \$9.7 million of the distributions from the RPTTF consisted of \$3.4 million annual residual distribution of the Redevelopment property tax and \$6.3 million one-time distributions were recorded in the General Fund. If the annual RPTTF distributions were recorded in the General Fund in fiscal 2013, the property tax revenue would have shown an increase of \$0.6 million. The additional increase is due to recovery in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax decreased by approximately \$1.2 million due to the loss of a major sales tax generator. Other taxes increased by \$1.7 million primarily due to increased Transient Occupancy Tax revenue. Licenses and permits increased \$2.3 million primarily from the building permit and inspection fees as a result of increased development activities. Charges for services also increased by \$0.2 million due to increased revenues for planning and engineering fees received from private developments and increased police, fire, and recreation service charges.

General Fund expenditures increased \$1.7 million to \$62.9 million in fiscal 2014 primarily due to an increase in salaries and benefits.

Net transfers in were approximately \$3.1 million, as compared to net transfers out of \$4.4 million in fiscal 2013. Net transfers consist of \$3.7 million from other funds for operating costs and transfers out of \$0.6 million. The transfers out of \$0.6 million were primarily for funding of capital projects.

The special item of \$0.9 million consists of the transfer of lands from EDC and the Housing Authority to the City, offset by the payment to the County Controller under the settlement with State of California and the County of Santa Clara.

Economic Development Corporation

This fund accounts for the activities of the Economic Development Corporation (“EDC”). The EDC is a tax-exempt organization that was formed in fiscal 2011 for the purpose of facilitating and fostering the City’s economic development and elimination of blight through public-private partnerships. During fiscal 2014, EDC had an increase in interest income of \$2.0 million entirely due to repayment of interest on an interfund loan from the Transit Area Specific fund. Expenditures of \$3.8 million were primarily for interest and principal payments on a property purchase. The EDC assumed the liability of the former Redevelopment Agency for the purchase of one property located in the Transit Area. Under the Purchase and Sale Agreement with Mission West, the EDC was to pay the purchase price of \$21.8 million in installments, as stipulated in a promissory note. In fiscal 2014, \$3.0 million of the EDC’s funds along with \$0.8 million collected from the City’s Transit Area Impact Fee Fund were applied toward the repayment of the promissory note. The special item reflects that in 2014, the EDC settled the lawsuit with the State of California and the County of Santa Clara as a party of the City entities.

Operating transfers in of approximately \$0.8 million were from the Transit Area Impact Fee Fund and were used to pay a portion of the promissory note as mentioned above.

Housing Authority

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$1.3 million in fiscal 2014, comprised of \$0.4 million of interest and rental income, \$0.6 million from repayment of housing loans, and \$0.3 million proceeds from the sale of an affordable housing unit. Total expenditures were \$0.5 million for administration and operation of the “Silent Second” loan program, management of four affordable housing units and one commercial property with eight tenants that were transferred from the former Redevelopment Agency’s Housing Reserve Fund. The special item consists of the transfer of property held for resale to the General Fund under the terms of the City’s settlement with the State of California and the County of Santa Clara.

Street Improvement Capital Project

This Capital Project Fund accounts for the majority of the capital projects activity in the City that is not developed in the Transit Area. The Fund’s revenues were \$1.2 million in fiscal 2014, a decrease of \$1.5 million from fiscal 2013. The decrease was due to one time intergovernmental revenues and developer contributions. Fund expenditures were \$1.5 million in fiscal 2014, a decrease of \$3.6 million from fiscal 2013, attributed to capital outlay decrease. Operating transfers in of \$0.6 million were from the Gas Tax Special Revenue Fund for capital improvement project funding.

Transit Area Impact Fee

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2014, fund revenues were \$11.3 million, primarily from fees collected from developers. Expenditures were \$4.6 million, consisted of \$4.4 million capital improvement project expenditures and \$0.2 million for accrued interest expenditures on advances received from other funds. The operating transfer out of \$0.8 million to the Economic Development Corporation was used to pay for a portion of installment payment pursuant to a promissory note.

Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Fund Balance Classifications

Fund balances are classified in five categories: nonspendable, restricted, committed, assigned and unassigned based on a hierarchy of constraint. Further details on fund balance classifications can be found in Note 10B.

Table 7 shows the classification of the fund balances of the major governmental funds.

Table 7
Fund Balances at June 30 – Major Governmental Funds
(in Millions)

	2014	2013 (Restated)
General Fund		
Nonspendable	\$ 23.3	\$ 0.5
Committed	5.4	5.4
Assigned	6.7	10.4
Unassigned	13.5	16.4
Total	<u>\$48.9</u>	<u>\$32.7</u>
EDC Fund		
Restricted	<u>4.1</u>	<u>26.8</u>
Housing Authority Fund		
Restricted	<u>\$21.0</u>	<u>\$24.6</u>
Street Improvement Fund		
Restricted	<u>\$7.5</u>	<u>\$7.4</u>
Transit Area Impact Fee Fund		
Unassigned	<u>(\$6.6)</u>	<u>(\$12.9)</u>

At June 30, 2014, the fund balance of the General Fund was \$48.9 million: \$23.3 million was classified as nonspendable, comprised of \$0.7 for prepaid materials and supplies, \$17.6 million of property held for resale, and \$5.0 million for advances to other funds; \$5.4 million for PERS Rate Stabilization was classified as committed; \$6.7 million of the fund balance comprised of \$3.5 million for capital improvement, \$2.8 million for uninsured claims and \$0.4 million for encumbrances, was classified as assigned; \$13.5 million was classified as unassigned.

The fund balance of the Economic Development Corporation Fund was \$4.1 million, all restricted for economic development purposes.

The fund balances of the Housing Authority Fund and Street Improvement Fund were also classified as restricted because the amounts were restricted for specific purposes.

The fund balance of the Transit Area Impact Fee Fund was classified as unassigned due to its negative amount.

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased \$1.7 million from last year, while operating expenses increased \$1.8 million. Total operating revenues and total operating expenses were \$34.1 million and \$28.1 million respectively. Non-operating revenues were \$0.5 million in fiscal 2014, a decrease of \$0.1 million from the prior year. Capital contributions decreased by \$0.1 million while net transfers out increased by \$0.3 million.

Water Utility

Water fund revenues were \$21.4 million in fiscal 2014, up \$1.6 million from prior year. The increase in revenues was primarily due to increased water rates and usage. Expenses were \$17.4 million in fiscal 2014, up \$0.2 million from prior year, primarily due to increased purchased water expense. Net position of the Water Utility Fund increased \$3.0 million in the current year to a total of \$69.9 million. The increase comprised of \$4.0 million in operating income for the current year, \$0.3 million in non-operating revenues, \$0.7 million capital contributions from developers, offset by net transfers out of \$1.8 million and \$0.3 million restatement of the prior year beginning balance (see note 10E). The transfer out of \$1.8 million was for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Position includes \$46.8 million invested in capital assets, \$14.3 million in restricted net position, and \$8.9 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were \$12.8 million in fiscal 2014, up \$0.2 million from the prior year due to increased usage. Expenses were \$10.7 million in fiscal 2014, up \$1.6 million from the prior year due to increased contribution requirements for the City's share of the operating expenses at the Waste Water Treatment Plant and an increase in personnel expense. Non-operating revenues in fiscal year 2014 consisted of \$0.5 million interest income, and \$0.3 million interest expense. Net position of the Sewer Utility Fund increased \$1.4 million in the current year to a total of \$96.0 million. This increase comprised of \$2.0 million in operating income, \$0.2 million in non-operating income, \$0.8 million in capital contributions by developers, and \$2.0 million restatement of the prior year beginning balance (see note 10E), and net transfers out of \$1.6 million for reimbursements of administration costs incurred by the General Fund.

\$12.0 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, \$61.0 million was invested in capital assets and \$23.0 million was restricted as to use.

CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2014, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 8 below:

Table 8
Capital Assets at Year-end
(in Millions)

	2014	2013
<i>Governmental Activities:</i>		
Land	\$ 57.6	\$ 58.6
Construction in progress	16.4	10.9
Buildings and improvements	162.7	96.3
Other improvements	26.5	26.2
Machinery and equipment	38.4	35.8
Landscape system	29.6	29.6
Storm system	74.3	74.3
Street system	241.7	229.5
Traffic system	19.0	18.9
Less accumulated depreciation	(368.2)	(352.9)
Totals	\$298.0	\$227.2
<i>Business-type Activities:</i>		
Land	\$ 1.1	\$ 1.1
Construction in progress	6.2	17.7
Distribution facilities	79.6	67.3
Service lines	13.0	12.9
Sewer lines	77.4	77.4
Capacity rights	46.4	41.9
Less accumulated depreciation	(108.9)	(104.5)
Totals	\$114.8	\$113.8

The principal additions in fiscal 2014 were to the buildings and improvements, machinery and equipment, street system and construction-in-progress. Construction in progress included the Milpitas Boulevard Eastern Extension, street resurfacing, Milpitas Sport Center Facility Improvements and Pinewood Park Picnic Renovation. As a result of the lawsuit settlement between the State of California, the County of Santa Clara and the City entities, the Successor Agency was required to convey land and construction in progress in the amount of \$98.1 million to the City and the City was required to convey land in the amount of \$7.2 million to the Successor Agency. The detail of these transactions can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8.

DEBT ADMINISTRATION

A portion of the City's debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by the sewer revenue. In fiscal 2012, the EDC purchased a property and entered into a promissory note with the seller. In fiscal 2014, the EDC conveyed the same property to the City and the City assumed the balance of the debt. The promissory note requires annual installment payments until fiscal 2016. In fiscal 2013, the City entered into a capital lease for the purchase of a phone system and equipment. The lease requires annual payments until fiscal 2017. Each of the City's debt is discussed in detail in Note 9 to the financial statements. At June 30, 2014 the City's debt comprised:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2014	Balance June 30, 2013
Governmental Activity Debt:		
Purchase Agreement with Mission West Properties due February 15, 2016	\$ 6.0	\$ 9.8
Cisco Phone System Capital Lease Due September 18, 2016	0.3	0.4
Total Governmental Activity Debt	<u>\$ 6.3</u>	<u>\$ 10.2</u>
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A 3.4% -4.2%, due November 1, 2026	<u>\$ 6.9</u>	<u>\$ 7.3</u>
Total Business-type Activity Debt	<u>\$ 6.9</u>	<u>\$ 7.3</u>

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2014, a total of \$9.0 million in local improvement district debt was outstanding, issued by two local improvement districts. This debt is secured only by special assessments on the real properties in the district issuing the debt, and is not the City's responsibility. The City does act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 16 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 455 East Calaveras Boulevard, Milpitas, CA 95035-5479 or to the City's website at www.ci.milpitas.ca.gov.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the City's net position by subtracting total liabilities and deferred inflows of resources from total assets and deferred outflows of resources.

The Statement of Net Position summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the primary government. This column is followed by a column that displays the discretely presented component unit.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, deferred inflows/outflows of resources, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by the program, and follows these with the expenses of its Business-type Activities. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities, Business-type Activities or discretely presented component unit column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

Both of these Statements include the financial activities of the City and the blended component units: the Milpitas Public Financing Authority (Financing Authority), the Milpitas Economic Development Corporation (EDC) and the City of Milpitas Housing Authority (Housing Authority). The Financing Authority and Housing Authority are legally separate component units of the City, because they are controlled by the City and the City is financially accountable for their activities. The EDC is a California nonprofit public benefit Corporation that is also a legally separate component unit of the City because it is governed by a board consisting of the members of the City Council. The balances and the activities of the discretely presented component unit of Terrace Gardens, Inc. are included in these statements as separate columns.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

CITY OF MILPITAS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	\$102,163,673	\$52,683,704	\$154,847,377	\$10,000
Restricted investments (Note 3)	4,054,144		4,054,144	1,244,773
Receivables:				
Accounts	2,156,165	1,754,210	3,910,375	242
Due from other governments	2,689,776	66,386	2,756,162	
Interest	214,496	97,054	311,550	
Internal balances (Note 4)	(5,445,000)	5,445,000		
Loans receivable (Note 5)	33,142,187		33,142,187	
Prepays, materials, supplies and deposits (Note 1E)	835,158	388,143	1,223,301	28,227
Property held for resale (Note 6)	32,882,370		32,882,370	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	73,992,954	7,375,948	81,368,902	1,611,935
Depreciable capital assets, net	223,985,457	107,350,311	331,335,768	7,654,528
Total assets	470,671,380	175,160,756	645,832,136	10,549,705
LIABILITIES				
Accounts payable	7,354,514	1,413,308	8,767,822	221,774
Accrued payroll	2,918,418	137,059	3,055,477	24,210
Interest payable	6,976	44,088	51,064	
Uninsured claims payable (Note 13):				
Due within one year	921,169		921,169	
Due in more than one year	5,446,046		5,446,046	
Refundable deposits	3,159,407	189,892	3,349,299	77,039
Unearned revenue	2,820,790		2,820,790	4,021
Accrued vacation (Note 12):				
Due within one year	552,175	134,000	686,175	
Due in more than one year	3,736,435	119,806	3,856,241	
Sick leave payable (Note 12):				
Due within one year	301,612	70,572	372,184	
Due in more than one year	3,403,125	190,806	3,593,931	
Long term debt (Note 9):				
Due within one year	3,088,442	420,000	3,508,442	
Due in more than one year	3,185,508	6,490,000	9,675,508	
Total liabilities	36,894,617	9,209,531	46,104,148	327,044
NET POSITION (Note 10E)				
Net investment in capital assets and capacity rights	291,704,461	107,816,259	399,520,720	9,266,463
Restricted for:				
Capital projects	32,331,631	37,254,500	69,586,131	
Redevelopment and community development activities	58,426,148		58,426,148	
Total restricted net position	90,757,779	37,254,500	128,012,279	
Unrestricted	51,314,523	20,880,466	72,194,989	956,198
Total net position	\$433,776,763	\$165,951,225	\$599,727,988	\$10,222,661

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$21,074,214	\$1,819,032	\$1,241,064	\$95,564	(\$17,918,554)	
Building	2,683,858	6,444,782			3,760,924	
Recreation	3,012,100	1,958,447	85,013	2,029,610	1,060,970	
Public Works	18,663,961	2,471,775	3,328,707	13,357,992	494,513	
Planning and Neighborhood Services	2,118,867	431,773	384,930		(1,302,164)	
Police	23,373,427	1,091,423	1,096,975		(21,185,029)	
Fire	15,158,837	2,120,144	58,102		(12,980,591)	
Interest on long term debt	239,903				(239,903)	
Total Governmental Activities	86,325,167	16,337,376	6,194,791	15,483,166	(48,309,834)	
Business-type Activities:						
Water Utility	17,368,751	21,354,428	57,278	652,711		\$4,695,666
Sewer Utility	11,008,326	12,753,215		749,111		2,494,000
Total Business-type Activities	28,377,077	34,107,643	57,278	1,401,822		7,189,666
Total Primary Government	\$114,702,244	\$50,445,019	\$6,252,069	\$16,884,988	(48,309,834)	7,189,666
Component Unit:						
Terrace Gardens Inc.	\$1,796,414	\$1,629,957	\$161,146			
General revenues:						
Taxes:						
Property taxes					27,607,559	
Sales and use taxes					19,013,910	
Hotel/Motel taxes					9,336,309	
Other taxes					671,744	
Franchise fees, unrestricted					3,453,139	
Motor vehicle in lieu, unrestricted					30,356	
Investment earnings					844,134	689,823
Miscellaneous					200,028	
Special items (Notes 8A and 14):						
Assets transferred to/from Successor Agency and County					49,798,895	
Transfers (Note 4)					3,401,830	(3,401,830)
Total general revenues, special items and transfers					114,357,904	(2,712,007)
Change in Net Position					66,048,070	4,477,659
Net position-Beginning, as restated (Note 10E)					367,728,693	161,473,566
Net position-Ending					\$433,776,763	\$165,951,225

See accompanying notes to financial statements

	Net (Expense) Revenue and Changes in Net Position
	Component Unit
Total	Terrace Gardens Inc.
(\$17,918,554)	
3,760,924	
1,060,970	
494,513	
(1,302,164)	
(21,185,029)	
(12,980,591)	
(239,903)	
(48,309,834)	
4,695,666	
2,494,000	
7,189,666	
(41,120,168)	
	(\$5,311)
27,607,559	
19,013,910	
9,336,309	
671,744	
3,453,139	
30,356	
1,533,957	2,316
200,028	
49,798,895	
111,645,897	2,316
70,525,729	(2,995)
529,202,259	10,225,656
\$599,727,988	\$10,222,661



FUND FINANCIAL STATEMENTS

The Fund Financial Statements present individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit, which are not accounted for in another fund.

ECONOMIC DEVELOPMENT CORPORATION FUND

Established to account for the activities of the Milpitas Economic Development Corporation formed for the purpose of providing physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

HOUSING AUTHORITY FUND

Established to plan and address the housing needs of the City and to act as the Housing Successor Agency for the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

STREET IMPROVEMENT FUND

Established to account for the construction and maintenance of the street system in Milpitas. Financing may be provided through state and federal grants.

TRANSIT AREA IMPACT FEE FUND

Established to account for capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.



CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General	Economic Development Corporation	Housing Authority	Street Improvement
ASSETS				
Cash and investments available for operations (Note 3)	\$31,417,209	\$43,867	\$5,759,836	\$7,732,319
Restricted investments (Note 3)		4,054,144		
Receivables:				
Accounts	2,064,982		2,539	
Due from other governments	2,405,602			16
Interest	90,695	1,158	11,396	14,146
Loans receivable, net (Note 5)			29,863,182	
Prepays, materials, supplies and deposits (Note 1E)	679,480		3,257	
Property held for resale (Note 6)	17,600,000		15,282,370	
Advances to other funds (Note 4)	5,000,000			
Total Assets	<u>\$59,257,968</u>	<u>\$4,099,169</u>	<u>\$50,922,580</u>	<u>\$7,746,481</u>
LIABILITIES				
Accounts payable	\$1,682,584	\$5,931	\$14,579	\$244,906
Accrued payroll	2,848,275		1,385	9,058
Refundable deposits	3,126,340		13,100	
Unearned revenue	2,709,560		1,600	
Advances from other funds (Note 4)				
Total Liabilities	<u>10,366,759</u>	<u>5,931</u>	<u>30,664</u>	<u>253,964</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - loans receivable			29,863,182	
Total Deferred Inflows of Resources			<u>29,863,182</u>	
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	23,279,480		3,257	
Restricted		4,093,238	21,025,477	7,492,517
Committed	5,432,703			
Assigned	6,658,474			
Unassigned	13,520,552			
TOTAL FUND BALANCES	<u>48,891,209</u>	<u>4,093,238</u>	<u>21,028,734</u>	<u>7,492,517</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$59,257,968</u>	<u>\$4,099,169</u>	<u>\$50,922,580</u>	<u>\$7,746,481</u>

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are unavailable on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

- Long-term debt
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
\$8,141,103	\$39,349,251	\$92,443,585 4,054,144
	88,644	2,156,165
	284,158	2,689,776
5,795	73,241	196,431
	3,279,005	33,142,187
	28,393	711,130
		32,882,370
		5,000,000
<u>\$8,146,898</u>	<u>\$43,102,692</u>	<u>\$173,275,788</u>
\$4,310,735	\$1,045,552	\$7,304,287
	41,601	2,900,319
806	19,161	3,159,407
	109,630	2,820,790
<u>10,445,000</u>		<u>10,445,000</u>
<u>14,756,541</u>	<u>1,215,944</u>	<u>26,629,803</u>
		<u>29,863,182</u>
		<u>29,863,182</u>
	28,393	23,311,130
	30,049,948	62,661,180
		5,432,703
	11,808,407	18,466,881
<u>(6,609,643)</u>		<u>6,910,909</u>
<u>(6,609,643)</u>	<u>41,886,748</u>	<u>116,782,803</u>
<u>\$8,146,898</u>	<u>\$43,102,692</u>	
		297,978,411
		9,702,739
		29,863,182
		(6,273,950)
		(7,909,207)
		(6,367,215)
		<u>\$433,776,763</u>

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Economic Development Corporation	Housing Authority	Street Improvement
REVENUES				
Property taxes	\$27,607,559			
Sales taxes	19,766,138			
Other taxes	13,795,333			
Licenses and fines	8,193,230			
Use of money and property	552,450	\$1,523,779	\$391,831	\$85,959
Intergovernmental	1,277,702			871,036
Charges for services	5,410,092			
Developer contributions				262,096
Other	202,491	16,326	882,181	
Total Revenues	<u>76,804,995</u>	<u>1,540,105</u>	<u>1,274,012</u>	<u>1,219,091</u>
EXPENDITURES				
Current:				
General Government	12,221,259	365,813	396,061	4,906
Building and Safety	2,658,077			
Human Resources and Recreation	3,123,464			
Public Works	6,462,770			603,940
Planning and Neighborhood Services	1,753,472		81,747	
Police	22,069,962			
Fire	14,587,134			
Capital outlay		18,862		889,548
Debt service:				
Principal		3,828,464		
Interest and fees				
Total Expenditures	<u>62,876,138</u>	<u>4,213,139</u>	<u>477,808</u>	<u>1,498,394</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>13,928,857</u>	<u>(2,673,034)</u>	<u>796,204</u>	<u>(279,303)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	5,727			
Transfers in (Note 4)	3,660,963	828,464		600,000
Transfers (out) (Note 4)	(600,000)			(300,000)
Total Other Financing Sources (Uses)	<u>3,066,690</u>	<u>828,464</u>		<u>300,000</u>
Net change in fund balance before special items	16,995,547	(1,844,570)	796,204	20,697
Special Items (Notes 8A and 14)	(883,512)	(20,864,662)	(4,331,849)	
NET CHANGE IN FUND BALANCES	16,112,035	(22,709,232)	(3,535,645)	20,697
Fund balances (deficits) at beginning of year, as restated (Note 10E)	<u>32,779,174</u>	<u>26,802,470</u>	<u>24,564,379</u>	<u>7,471,820</u>
FUND BALANCES (DEFICITS) AT END OF YEAR	<u>\$48,891,209</u>	<u>\$4,093,238</u>	<u>\$21,028,734</u>	<u>\$7,492,517</u>

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
		\$27,607,559
		19,766,138
	\$1,196,401	14,991,734
		8,193,230
\$55,098	355,267	2,964,384
	3,067,275	5,216,013
	324,702	5,734,794
11,263,420	2,449,179	13,974,695
26,314	16,900	1,144,212
<u>11,344,832</u>	<u>7,409,724</u>	<u>99,592,759</u>
	215,701	13,203,740
		2,658,077
		3,123,464
23,167	1,445,359	8,535,236
	367,081	2,202,300
	94,579	22,164,541
		14,587,134
4,353,664	4,773,052	10,035,126
		3,828,464
<u>223,242</u>	<u></u>	<u>223,242</u>
<u>4,600,073</u>	<u>6,895,772</u>	<u>80,561,324</u>
<u>6,744,759</u>	<u>513,952</u>	<u>19,031,435</u>
		5,727
	2,410,000	7,499,427
<u>(828,464)</u>	<u>(2,369,133)</u>	<u>(4,097,597)</u>
<u>(828,464)</u>	<u>40,867</u>	<u>3,407,557</u>
5,916,295	554,819	22,438,992
<u>428,713</u>	<u>(1,609,208)</u>	<u>(27,260,518)</u>
6,345,008	(1,054,389)	(4,821,526)
<u>(12,954,651)</u>	<u>42,941,137</u>	<u>121,604,329</u>
<u>(\$6,609,643)</u>	<u>\$41,886,748</u>	<u>\$116,782,803</u>

CITY OF MILPITAS
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$4,821,526)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of \$470,308 have already been added to capital assets)	9,017,854
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$799,685 which has already been allocated to serviced funds.)	(14,764,830)
Capital asset retirements are deducted from fund balance	(623,649)
Capital assets transferred to property held for resale are added to fund balance	(13,400,000)
Capital assets transferred to the Successor Agency	(7,241,129)
Capital assets transferred from the Successor Agency	98,129,255

LONG TERM DEBT PAYMENTS

Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of principal is added back to fund balance	3,828,464
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Non-current portion of accrued vacation and sick leave	(158,439)
Non-current portion of uninsured claims payable	(2,947,157)
Unavailable revenue	(918,269)
Loans write-off due to Successor Agency settlement agreement	(428,713)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Position - All Internal Service Funds	<u>376,209</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$66,048,070</u></u>
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See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Budget Positive (Negative)
Revenues				
Property taxes	\$19,195,500	\$19,203,000	\$27,607,559	\$8,404,559
Sales taxes	20,899,054	20,913,000	19,766,138	(1,146,862)
Other taxes	11,738,000	11,738,000	13,795,333	2,057,333
Licenses and fines	5,739,000	5,739,000	8,193,230	2,454,230
Use of money and property	307,000	307,000	552,450	245,450
Intergovernmental	857,000	989,163	1,277,702	288,539
Charges for services	5,357,000	5,377,000	5,410,092	33,092
Other	82,000	95,686	208,218	112,532
Total Revenues	64,174,554	64,361,849	76,810,722	12,448,873
Expenditures				
Current:				
General Government:				
City Manager	1,245,364	1,301,964	1,290,621	11,343
City Attorney	865,064	1,509,064	1,508,243	821
Finance	2,080,985	2,080,985	1,938,500	142,485
Information Services	2,181,148	2,181,148	2,121,087	60,061
Non-departmental	6,762,375	6,365,027	4,841,676	1,523,351
Building and Safety	2,823,257	2,823,257	2,658,077	165,180
Human Resources and Recreation	4,357,498	4,367,848	4,007,760	360,088
Public Works	6,762,442	6,762,442	6,491,904	270,538
Planning and Neighborhood Services	1,782,362	1,812,362	1,753,472	58,890
Police	22,616,204	22,637,731	22,084,891	552,840
Fire	14,347,189	14,603,825	14,595,749	8,076
Total Expenditures	65,823,888	66,445,653	63,291,980	3,153,673
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,649,334)	(2,083,804)	13,518,742	15,602,546
OTHER FINANCING SOURCES (USES)				
Transfers in	5,147,939	5,147,939	3,660,963	(1,486,976)
Transfers (out)	(600,000)	(600,000)	(600,000)	
Total Other Financing Sources (Uses)	4,547,939	4,547,939	3,060,963	(1,486,976)
Net change in fund balance before special items	2,898,605	2,464,135	16,579,705	14,115,570
Special Items			(883,512)	(883,512)
Net change in fund balance	\$2,898,605	\$2,464,135	15,696,193	\$13,232,058
Adjustment to budgetary basis:				
Encumbrance expenditures			415,842	
Fund balance at beginning of year			32,779,174	
Fund balance at end of year			\$48,891,209	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Use of money and property	\$6,000	\$6,000	\$391,831	\$385,831
Developer contributions				
Other			882,181	882,181
Total Revenues	6,000	6,000	1,274,012	1,268,012
Expenditures				
Current:				
General Government:				
Finance	64,694	64,694	35,432	29,262
Non-departmental	703,000	703,000	360,629	342,371
Planning and Neighborhood Services	111,296	111,296	81,747	29,549
Total Expenditures	878,990	878,990	477,808	401,182
Net change in fund balance before special items	(872,990)	(872,990)	796,204	1,669,194
Special Items		(4,331,849)	(4,331,849)	
Net change in fund balance	<u>(\$872,990)</u>	<u>(\$5,204,839)</u>	(3,535,645)	<u>\$1,669,194</u>
Fund balance at beginning of year			24,564,379	
Fund balance at end of year			<u>\$21,028,734</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of *major funds* extends to Proprietary Funds. The City has identified the funds below as major proprietary funds.

Financial reporting standards do not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER UTILITY FUND

Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

SEWER UTILITY FUND

Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collection.

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of computer systems on a cost reimbursement basis.

CITY OF MILPITAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$21,191,564	\$12,687,777	\$33,879,341	\$2,512,159
Other operating revenue	162,864	65,438	228,302	239
Total Operating Revenues	21,354,428	12,753,215	34,107,643	2,512,398
OPERATING EXPENSES				
Purchased water	11,946,523		11,946,523	
Sewer treatment services		5,212,154	5,212,154	
Personnel services	2,194,969	1,799,701	3,994,670	645,843
Services and supplies	1,361,967	719,541	2,081,508	674,296
Depreciation	1,528,579	2,897,547	4,426,126	799,685
Repairs and maintenance	336,713	102,824	439,537	296,168
Total Operating Expenses	17,368,751	10,731,767	28,100,518	2,415,992
Operating Income (Loss)	3,985,677	2,021,448	6,007,125	96,406
NONOPERATING REVENUES				
Interest income	207,130	482,693	689,823	88,819
Interest expense		(276,559)	(276,559)	(16,661)
Subventions and grants	57,278	8,564	65,842	
Gain on sale of assets				37,300
Total Nonoperating Revenues	264,408	214,698	479,106	109,458
Income (Loss) Before Contributions and Transfers	4,250,085	2,236,146	6,486,231	205,864
Capital contributions				170,345
Capital contributions - connection fees	652,711	740,547	1,393,258	
Transfers (out) (Note 4)	(1,829,179)	(1,572,651)	(3,401,830)	
Change in net position	3,073,617	1,404,042	4,477,659	376,209
Net position-beginning, as restated (Note 10E)	66,873,539	94,600,027	161,473,566	12,348,221
Net position-ending	\$69,947,156	\$96,004,069	\$165,951,225	\$12,724,430

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments available for operations (Note 3)	\$23,556,473	\$29,127,231	\$52,683,704	\$9,720,088
Receivables:				
Accounts	1,000,754	753,456	1,754,210	
Due from other governments	41,684	24,702	66,386	
Interest	43,253	53,801	97,054	18,065
Prepays, materials, supplies and deposits (Note 1E)	344,759	43,384	388,143	124,028
Total current assets	24,986,923	30,002,574	54,989,497	9,862,181
Noncurrent assets:				
Advance to other funds (Note 4)		5,445,000	5,445,000	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	4,946,374	2,429,574	7,375,948	
Depreciable capital assets, net	41,838,930	65,511,381	107,350,311	3,295,641
Total noncurrent assets	46,785,304	73,385,955	120,171,259	3,295,641
Total assets	71,772,227	103,388,529	175,160,756	13,157,822
LIABILITIES				
Current liabilities:				
Accounts payable	1,297,475	115,833	1,413,308	50,227
Accrued payroll	80,112	56,947	137,059	18,099
Interest payable		44,088	44,088	6,976
Refundable deposits	189,892		189,892	
Accrued vacation (Note 12)	67,000	67,000	134,000	20,857
Sick leave payable (Note 12)	35,286	35,286	70,572	7,139
Capital lease (Note 9)				88,442
Certificates of Participation (Note 9)		420,000	420,000	
Total current liabilities	1,669,765	739,154	2,408,919	191,740
Non-current liabilities:				
Accrued vacation (Note 12)	59,903	59,903	119,806	36,844
Sick leave payable (Note 12)	95,403	95,403	190,806	19,300
Capital lease (Note 9)				185,508
Certificates of Participation (Note 9)		6,490,000	6,490,000	
Total non-current liabilities	155,306	6,645,306	6,800,612	241,652
Total liabilities	1,825,071	7,384,460	9,209,531	433,392
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	46,785,304	61,030,955	107,816,259	3,021,691
Restricted for capital projects	14,273,975	22,980,525	37,254,500	
Unrestricted	8,887,877	11,992,589	20,880,466	9,702,739
Total net position	\$69,947,156	\$96,004,069	\$165,951,225	\$12,724,430

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$21,821,594	\$12,794,308	\$34,615,902	\$2,512,398
Payments to suppliers	(13,865,564)	(6,098,637)	(19,964,201)	(965,386)
Payments to employees	(2,088,572)	(1,701,681)	(3,790,253)	(633,262)
Net cash provided by operating activities	5,867,458	4,993,990	10,861,448	913,750
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	57,278	8,564	65,842	
Advance to other funds		(64,358)	(64,358)	
Loans receivable				42,283
Transfers (out)	(1,829,179)	(1,572,651)	(3,401,830)	
Cash Flows from Noncapital Financing Activities	(1,771,901)	(1,628,445)	(3,400,346)	42,283
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on long-term debt		(405,000)	(405,000)	(85,686)
Interest paid		(278,965)	(278,965)	(11,566)
Proceeds from sale of capital assets				37,300
Acquisition of capital assets	(579,642)	(4,768,314)	(5,347,956)	(299,963)
Capital contributions - connection fees	652,711	740,547	1,393,258	
Cash Flows from Capital and Related Financing Activities	73,069	(4,711,732)	(4,638,663)	(359,915)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	192,117	473,401	665,518	84,549
Cash Flows from Investing Activities	192,117	473,401	665,518	84,549
Net increase (decrease) in cash and cash equivalents	4,360,743	(872,786)	3,487,957	680,667
Cash and investments at beginning of period	19,195,730	30,000,017	49,195,747	9,039,421
Cash and investments at end of period	\$23,556,473	\$29,127,231	\$52,683,704	\$9,720,088
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$3,985,677	\$2,021,448	\$6,007,125	\$96,406
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,528,579	2,897,547	4,426,126	799,685
Change in assets and liabilities:				
Receivables, net	440,007	41,093	481,100	
Materials, supplies and deposits	28,072	(21,945)	6,127	(20,673)
Accrued payroll	31,212	22,835	54,047	
Accounts and other payables	(146,089)	33,012	(113,077)	38,332
Net cash provided by operating activities	\$5,867,458	\$4,993,990	\$10,861,448	\$913,750
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets, net				\$170,345

See accompanying notes to financial statements



FIDUCIARY FUNDS

FIDUCIARY FUNDS

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY TO THE MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND

The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used to make payments that are on the Recognized Obligation Payment Schedule and to dispose of assets and property of the former Redevelopment Agency for the benefit of the taxing agencies.

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	\$10,370,249	\$6,417,713
Interest receivable		7,449
Property held for resale (Note 17B)	18,028,814	
Total Assets	<u>28,399,063</u>	<u>\$6,425,162</u>
LIABILITIES		
Accounts payable	169,004	
Refundable deposits		\$1,780,402
Due to Local Improvement Districts		4,644,760
Interest payable	2,471,536	
Long-term obligations (Note 17E):		
Due in one year	9,189,566	
Due in more than one year	<u>168,125,274</u>	
Total Liabilities	<u>179,955,380</u>	<u>\$6,425,162</u>
NET POSITION (DEFICIT)		
Held in trust for other governments	<u>(\$151,556,317)</u>	

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Taxes	\$19,088,300
Use of money and property	<u>2,562</u>
Total additions	<u>19,090,862</u>
Deductions:	
General and administrative	615,953
Debt Service:	
Interest and fees	9,406,115
Special Items (Note 17F):	
Assets transferred to/from the City of Milpitas and Santa Clara County	<u>81,415,555</u>
Total deductions	<u>91,437,623</u>
Net change in net position	(72,346,761)
Net position (deficit) - beginning	<u>(79,209,556)</u>
Net position (deficit) - ending	<u><u>(\$151,556,317)</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety, police, fire and building inspection; parks and streets; water; sanitation; recreation services; planning and zoning; general administration services, redevelopment and economic development.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

PRIMARY GOVERNMENT

The financial statements of the primary government of the City of Milpitas include the activities of the City as well as the Milpitas Public Financing Authority, the Milpitas Economic Development Corporation and the City of Milpitas Housing Authority, all of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

Blended Component Units

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Sewer Utility Enterprise Fund.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 17, the Redevelopment Agency was dissolved effective January 31, 2012. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation received funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Economic Development Corporation Special Revenue Fund.

The City of Milpitas Housing Authority, formed in February 2011, is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Housing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Housing Authority. The Financial activities of the Housing Authority are included in the Housing Authority Special Revenue Fund.

Financial statements for the Milpitas Economic Development Corporation may be obtained from the City of Milpitas located at 455 East Calaveras Blvd., Milpitas, CA 95035 or www.ci.milpitas.ca.gov/government/finance. Separate financial statements are not issued for the Public Financing Authority or the City of Milpitas Housing Authority.

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2013 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

Financial statements for Terrace Gardens, Inc. may be obtained from Terrace Gardens, Inc., 186 Beresford Court, Milpitas, CA 95035.

B. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, the City and its blended and discretely presented component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including franchise fees that are based on gross receipts and all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and the related costs, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as subsidies, investment earnings and any related costs, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, hotel taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, public works, recreation services and the other governmental services described above.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Economic Development Corporation Fund – Established to account for the activities of the Milpitas Economic Development Corporation, a nonprofit public benefit Corporation formed in fiscal 2011 by the City and the former Redevelopment Agency, established to provide physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

Housing Authority Fund – Established to plan and address the housing needs of the City and to act as the Housing Successor of the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

Street Improvement Fund – Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and Federal grants.

Transit Area Impact Fee Fund – Established to account for the capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Utility Fund – Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Sewer Utility Fund – Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, and billing and collection.

The City also reports the following fund types:

Internal Service Fund – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of the online permit development system on a cost reimbursement basis.

Fiduciary Funds – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. This fund accounts for winding down the affairs of the former Milpitas Redevelopment Agency and makes payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

Agency funds are used to account for assets held by the City as an agent for negotiated employee benefits, the Senior Advisory Commission, and Local Improvement Districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes, significant building permit fees, and interest revenue. Forfeitures, licenses, other permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as unearned revenue.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

E. Prepaids, Materials, Supplies and Deposits

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Materials and supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations. Materials and supplies of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expense or expenditure in the funds at the time individual inventory items are consumed.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaids, materials, supplies and deposits in governmental funds are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. *Deferred Inflows and Deferred Outflows of Resources*

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

G. *Property Tax*

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

H. *Revenue Recognition for Water Utility and Sewer Utility*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

I. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

The City adopts an annual operating budget on or before June 30 of the previous fiscal year. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager may approve supplemental appropriations in the General Fund providing the total increase does not exceed 1% of the original total General Fund budget subject to the following. All additional appropriations that require the use of reserves must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is \$20,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceed \$20,000 require prior approval of the City Council.

Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations which were amended.

B. *Adjustments to GAAP Basis from Budgetary Basis*

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements. The Street Improvement, Park Improvement, General Government Project, Storm Drain Development and Transit Area Impact Fee Capital Projects Funds are budgeted on a project length basis and therefore are not comparable on an annual basis. The bylaws of the Economic Development Corporation do not require the adoption of an annual budget.

C. *Expenditures in Excess of Budget*

The Community Facilities District Special Revenue Fund had general government non-departmental expenditures in excess of budget in the amount of \$821. Sufficient resources were available within the fund to finance the expenditures.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds except Cash and Investments held by Trustees, certain investments of the Successor Agency to the Milpitas Redevelopment Agency, and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

Cash and investments available for operations	\$154,847,377
Restricted investments	<u>4,054,144</u>
Total Primary Government cash and investments	<u>158,901,521</u>
Cash and investments available for operations	10,000
Restricted investments	<u>1,244,773</u>
Total Component Unit cash and investments	<u>1,254,773</u>
Cash and investments	
in Fiduciary Funds (separate statement)	<u>16,787,962</u>
Total cash and investments	<u><u>\$176,944,256</u></u>

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		100%	\$50,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	\$5 million or 10%
Commercial Paper	270 Days	AA	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	2 Years		10%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

(A) Eligible Commercial Paper and Medium Term Corporate Notes combined may not represent more than 10% of the outstanding paper of an issuing corporation.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	\$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	\$50,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

(A) The combined total of commercial paper and medium term corporate notes may not represent more than 10% of the outstanding paper and notes of an issuing corporation.

E. Investments Authorized for Terrace Gardens Inc.

Terrace Gardens, Inc. investments conform with the California Government Code.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
<i>City:</i>				
Federal Agency Obligations	\$43,646,060	\$16,085,980	\$22,073,874	\$81,805,914
Medium Term Corporate Notes	3,023,580	4,046,136	7,028,710	14,098,426
U.S. Treasury Notes	3,006,810	7,001,563	12,007,401	22,015,774
California Local Agency Investment Fund	52,415,655			52,415,655
Mutual Funds (U.S. Securities)	2,501,415			2,501,415
Negotiable Certificates of Deposit	1,000,702	250,000		1,250,702
<i>Terrace Gardens, Inc.:</i>				
Certificates of Deposit	881,546			881,546
Total Investments	<u>\$106,475,768</u>	<u>\$27,383,679</u>	<u>\$41,109,985</u>	174,969,432
<i>Demand Deposits - City of Milpitas</i>				1,601,597
<i>Demand Deposits - Terrace Gardens</i>				373,227
Total Cash and Investments				<u>\$176,944,256</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2014 these investments matured in an average of 232 days.

Mutual funds are available for withdrawal on demand and at June 30, 2014 matured in an average of 40 days.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2014 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-	Total
Federal Agency Obligations		\$81,805,914		\$81,805,914
Medium Term Corporate Notes		13,092,996	\$1,005,430	14,098,426
Mutual Funds (U.S. Securities)	\$2,501,415			2,501,415
Negotiable Certificates of Deposit		250,000	750,702	1,000,702
Totals	<u>\$2,501,415</u>	<u>\$95,148,910</u>	<u>\$1,756,132</u>	<u>99,406,457</u>
<i>Not rated:</i>				
California Local Agency Investment Fund				52,415,655
Negotiable Certificates of Deposit				250,000
<i>Exempt from credit rate disclosure:</i>				
U.S. Treasury Notes				22,015,774
Total Investments				<u>\$174,087,886</u>

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2014.

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2014, all of Terrace Gardens' Time Certificates of Deposit were fully insured by Federal Deposit Insurance.

H. Significant Investments

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2014:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$34,129,460
Federal Home Loan Bank	Federal Agency Obligations	27,340,020
Federal National Mortgage Association	Federal Agency Obligations	12,944,760

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2014 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount
<i>Major Funds:</i>		
General Fund	Solid Waste Reduction and Services Special Revenue Fund	\$256,917 (A)
General Fund	Hetch Hetchy Ground Lease Special Revenue Fund	2,216 (A)
General Fund	Water Utility Enterprise Fund	1,829,179 (A)
General Fund	Sewer Utility Enterprise Fund	1,572,651 (A)
Economic Development Corporation Special Revenue Fund	Transit Area Impact Fee Capital Projects Fund	828,464 (B)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	600,000 (C)
<i>Non-Major Funds:</i>		
General Government Project Capital Projects Fund	General Fund	600,000 (C)
General Government Project Capital Projects Fund	Street Improvement Capital Projects Fund	300,000 (C)
General Government Project Capital Projects Fund	Gas Tax Special Revenue Fund	1,100,000 (C)
General Government Project Capital Projects Fund	Lighting & Landscape Maintenance District Special Revenue Fund	410,000 (C)
Total Interfund Transfers		<u>\$7,499,427</u>

The reasons for these transfers are set forth below:

- (A) Transfer for operating costs
- (B) Transfer Park in Lieu Fees for payment related to purchase of McCandless property
- (C) To fund capital projects

B. Long-Term Interfund Advances

On May 6, 2008, the City approved the purchase of 0.75 million gallons per day wastewater treatment capacity at the San Jose/Santa Clara Sanitary District via a purchase from the Cupertino Sanitary District (CuSD). The capacity is for build-out of the Transit Area Specific Plan. Funding for this purchase was included in the Transit Area Development Impact Fee Program. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. Therefore, the Redevelopment Project Capital Projects Fund advanced \$4,549,161 to the Transit Area Impact Fee Capital Projects Fund to cover the payment to CuSD and \$200,000 to cover other associated costs. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the interest rate on the advance is limited to the rates of the Local Agency Investment Fund and the advance, including principal and accrued interest in the amount of \$5,499,290 was due and paid in June 2014.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

During fiscal year 2010 the Redevelopment Project Capital Projects Fund advanced \$1,330,000 to the Transit Area Development Impact Fee Capital Projects Fund for the preparation costs of the Transit Area Specific Plan. The Sewer Utility Enterprise Fund advanced \$4,356,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with the main sewage pump station improvements in the Transit Area. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the interest rate on the \$1,330,000 advance is limited to the rates of the Local Agency Investment Fund and the advance, including principal and accrued interest in the amount of \$1,538,054 was due and paid in June 2014. The balance of the Sewer Utility Enterprise Fund advance, including principal and accrued interest was \$5,445,000 as of June 30, 2014.

During fiscal year 2011 the Redevelopment Project Capital Projects Fund advanced \$2,550,000 to the Transit Area Development Impact Fee Capital Projects Fund for the Light Rail Median Landscaping Project. The advance is due on August 2, 2030 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the interest rate on the advance is limited to the rates of the Local Agency Investment Fund and the advance, including principal and accrued interest in the amount of \$2,756,053 was due and paid in June 2014.

During fiscal year 2012 the Sewer Utility Enterprise Funds advanced \$145,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with evaluating the existing development in the transit area. The advance bore simple interest of 5% annually and was repaid on March 31, 2014.

In June 2014, the General Fund temporarily advanced \$5,000,000 to the Transit Area Development Impact Fee Capital Projects Fund. The advance will be repaid when the fund collects sufficient impact fees from developers. The advance bears simple interest at the monthly investment return of the City's portfolio. At June 30, 2014, the balance of the advance was \$5,000,000.

C. *Internal Balances*

Internal balances are presented in the entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

<p style="text-align: center;">CITY OF MILPITAS Notes to Basic Financial Statements For the Year Ended June 30, 2014</p>

<p>NOTE 5 - LOANS RECEIVABLE</p>

The City and former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 17, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012.

These loans were comprised of the following at June 30, 2014:

Housing and Community Development Loans:	
Rehabilitation Loans	<u>\$3,279,005</u>
Housing Authority Loans:	
Milpitas Housing Associates	4,659,003
Parc Metropolitan Housing Development	120,908
Montague Parkway Associates, LP	900,856
Parc North Associates LLC	1,111,417
Mid-Peninsula Milpitas Affordable Housing Associates	16,123,853
KB Home South Bay Inc.	1,622,900
Western Pacific Housing Inc.	1,811,091
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	<u>2,713,154</u>
Total Housing Authority Loans Receivable	<u>29,863,182</u>
Total Loans Receivable	<u><u>\$33,142,187</u></u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 5 - LOANS RECEIVABLE (Continued)

A. *Rehabilitation Loans*

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2014 the City had outstanding rehabilitation loans of \$3,279,005 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2014, the City received \$320,883 from all participants, and made new loans totaling \$141,351.

B. *Milpitas Housing Associates Loan*

In fiscal 1997, the former Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. Interest accrued during the fiscal year totaled \$240,792. As of June 30, 2014, principal and accrued interest totaled \$4,659,003.

C. *Parc Metropolitan Housing Development Loans*

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2014, the Housing Authority received principal payments of \$4,099 and as of June 30, 2014, there were \$120,908 in loans outstanding.

D. *Montague Parkway Associates, LP*

The former Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, \$1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal of \$40,308 was paid in fiscal 2014, and as of June 30, 2014, the outstanding balance totaled \$900,856.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 5 - LOANS RECEIVABLE (Continued)

E. *Parc North Associates LLC Loan*

In September 2003, the former Redevelopment Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. As of June 30, 2014, there were \$1,111,417 of such loans outstanding.

F. *Mid-Peninsula Milpitas Affordable Housing Associates*

In December 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2014, a payment of \$20,237 was received, interest of \$288,000 was accrued, and as of June 30, 2014, principal and accrued interest outstanding totaled \$16,123,853.

G. *KB Home South Bay Inc. Loans*

In January 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the former Redevelopment Agency would provide a total of \$4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately \$5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37th month after the recordation of the Deed of Trust and continues until the loans are paid in full.

Due to changes in the housing market and stricter lending requirements which had created unforeseen challenges in finding qualified buyers for the affordable units, the former Redevelopment Agency amended the Agreement in February 2009 to establish an in-lieu housing payment of \$1,702,000 to remove the affordable restrictions on 46 of the 67 remaining unsold affordable units (\$37,000 for each unit). This amount was paid in equal parts to the Agency and to the County. In addition, the commitment for silent-second mortgages was reduced \$2,300,000 to \$1,950,000, and the total number of affordable units was reduced from 110 to 64.

As of June 30, 2014, there were \$1,622,900 of loans to Parcel C households outstanding. As of June 30, 2014 subsidies totaling \$4,707,542 had been provided.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 5 - LOANS RECEIVABLE (Continued)

H. Western Pacific Housing Inc., Loans

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2014, there were \$614,091 such loans outstanding.

In August 2008 the Owner Participation Agreement was amended to reduce the number of units to be constructed by Western Pacific Housing Inc. to 137 and provide for the conversion of 7 of the moderate income units to low income units. In addition, in August 2008 the 327 unconstructed units of the project were sold to Lyon Milpitas LLC and the Agency entered into a new Owner Participation Agreement with Lyon Milpitas LLC to complete the construction of the affordable housing units.

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2014, there were \$1,197,000 of silent second loans outstanding.

I. Shapell Industries

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2014, there were \$800,000 of silent second loans outstanding.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 5 - LOANS RECEIVABLE (Continued)

J. MIL Aspen Associates, Ltd.

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of the each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2014, the Housing Authority received payments totaling \$33,946, and interest accrued during the fiscal year totaled \$131,617. As of June 30, 2014, principal and accrued interest totaled \$2,713,154.

K. Successor Agency Loans

On September 7, 2004, the former Redevelopment Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was \$20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bore simple interest of 10% annually. The balance of the advance, including principal and accrued interest, was \$21,670,757 as of January 31, 2012. This loan had previously been reported as an interfund advance. However, with the transfer of the associated liability to the Successor Agency, repayment of the loan was based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion from the State as discussed in Note 17. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore the loan balance was adjusted in fiscal year 2012 to reflect the revised interest rate and is offset with unavailable revenue in the General Fund. Under the terms of the settlement agreement discussed in Notes 14 and 17F, the parcels of land associated with this advance were conveyed to the City and as a result, the City forgave the outstanding balance of the advance in the amount of \$9,472,571. However, the balance of the loan had been offset by an unavailable revenue in the General Fund and an allowance for doubtful accounts in the Statement of Net Position, therefore the forgiveness had no net effect on fund balance or net position.

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced \$6,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of a land parcel. The advance was due on April 17, 2037 and bore simple interest of 5% annually. The balance of the advance, including principal and accrued interest, was \$7,094,356 as of January 31, 2012. The loan had previously been reported as an interfund advance. However, with the transfer of the housing assets to the Housing Authority Special Revenue Fund and the associated liability to the Successor Agency, repayment of the loan is based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion from the State as discussed in Note 17. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan and the loan balance was adjusted in fiscal year 2012 to reflect the revised interest rate. However, this loan was not deemed an enforceable obligation by the State Department of Finance, therefore the City was unable to determine whether it is collectible from the Successor Agency and it had been offset with an allowance for doubtful accounts. The State Department of Finance continues to deny that the loan is an enforceable obligation, therefore the City wrote off the balance of the loan and the allowance for doubtful accounts in the amounts of \$6,891,392 during fiscal year 2014.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

A. General Fund

As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, various land parcels were transferred from the Successor Agency to the City in June 2014. Two additional parcels were transferred to the City from the Housing Authority as discussed in Note 6B below.

The land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

As of June 30, 2014, property totaling \$17,600,000 is being held by the General Fund.

B. Housing Authority

The former Redevelopment Agency had purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer. The City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the property held for resale of the Redevelopment Agency's Housing Reserve Fund as of February 1, 2012.

In fiscal year 2010 the Agency purchased five housing units for \$1,503,718 in the Parc Metro Subdivision. During fiscal year 2011, the Agency purchased one additional Parc Metro Subdivision unit for \$305,095, one Centria Subdivision housing unit for \$248,056, and four KB Home Subdivision housing units for \$1,273,892. One of the KB Home Subdivision units with a book value of \$374,253 was sold in August 2011. Two of the KB Home Subdivision units with a book value of \$376,795 and \$294,921 were sold in December 2012 and February 2013, respectively. Four of the Parc Metro Subdivision units were sold in fiscal year 2013, with a total book value of \$1,245,559. The units were purchased in order to retain them as affordable housing units and are being held for future resale. Four of the units are rented to tenants.

In November 2009 the Agency purchased property along South Main Street in the amount of \$12,443,137, which was intended for the development of senior housing with low income housing units as discussed in Note 7B.

In March 2012, the Economic Development Corporation purchased two privately held properties along South Main Street in the amount of \$4,200,000. The properties were intended to be developed along with the senior housing development discussed in Note 7B. Consequently, the properties were transferred to the Housing Authority. As discussed in Notes 14 and 17F, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, since the two properties had not been funded by the former Redevelopment Agency or the Housing Authority, they were transferred to the City in June 2014.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT (Continued)

In February 2011, the Agency purchased additional property along South Main Street in the amount of \$1,800,000 which is intended to be incorporated into the Midtown Specific Plan for housing development. The purchase of this property had been funded by a loan from the Housing Reserve Special Revenue Fund to the Redevelopment Capital Projects Fund, and with the dissolution of the Agency as of February 1, 2012, the State Department of Finance approved the property as a housing asset and the property was transferred to the Housing Authority as the successor housing agency.

As of June 30, 2014, property totaling \$15,282,370 is being held by the Housing Authority.

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS

The City and former Redevelopment Agency have entered into the development agreements below in an effort to provide incentives to develop new businesses, new tax revenues and affordable housing.

A. *The Crossing at Montague*

In November 1999, the City approved the development of a 468 unit apartment complex, known as the Crossing at Montague Project (Project). As part of the conditions of approval, the developer of the Project is required to restrict 20% (94 units) of the units to very low income households. On behalf of the developer, the City issued \$45,000,000 in tax exempt bonds and \$15,000,000 in taxable bonds in June 2000. As of June 30, 2014, the outstanding principal of the debt was \$51,000,000. The debt service payments on these bonds are solely the responsibility of the developer.

B. *South Main Senior Lifestyles, LLC.*

In August 2009, the former Redevelopment Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC (SMSL) to develop 180 units of "Continuum of Care Senior Housing" (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. In November 2009, the Agency purchased the properties along South Main Street in the amount of \$12,443,137. The sales price for the Phase 1 Parcel will be \$5,022,129, and the sales price for the Phase 2 Parcel will equal the greater of the fair market value of the Phase 2 Parcel as defined in the Agreement or \$7,377,871. In addition, the Agency's Housing Reserve Special Revenue Fund will provide a grant in the amount of \$7.7 million to support the development and operation of the Phase 1 Parcel project.

In March 2011, the Economic Development Corporation assumed the obligations of the Disposition and Development Agreement and on October 18, 2011, a two year extension to the Agreement was approved to include a more extensive high density residential development plan of sixty-three residential units available at affordable housing cost to income-qualified very low and low income households.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS

In November 2013, the Housing Authority amended the Disposition and Development Agreement. The amendment states the Authority will convey the properties to the developer as a grant after certain requirements are fulfilled. In addition, the amendment also eliminates the \$7.7 million grant obligation included in the initial agreement. It further amended the number of affordable units from 63 to 48, all at the very low income level for seniors. As of June 30, 2014, the terms of the amendment have not yet been fulfilled and the properties have not been transferred to the developer.

C. *D.R. Horton Bay, Inc.*

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of \$8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive fee credits totaling \$4,365,061 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation, and will be reimbursed \$914,405 for the cost of improvements to the Sewer Lines 11A/11B. As of June 30, 2014, the City had not reimbursed any funds to D.R. Horton, and no fee credits had been issued.

D. *KLA-Tencor Corporation*

In June 2009, the City entered into a Sales Tax Sharing Agreement with KLA-Tencor Corporation (KLA). Under the terms of the Agreement, the City agreed to pay KLA 50% of the calendar year sales and use tax revenues paid by KLA and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from KLA for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid \$72,249 of sales tax to KLA during fiscal year 2014.

NOTE 8 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

The City has recorded all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems.

All capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years is reported on the statement of net position as a reduction in the book value of capital assets.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The general capitalization threshold is \$5,000. The City has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	10
Landscape system	50
Storm system	15-25
Street system	25
Traffic system	20
Water system	30-61
Sewer system	50
Capacity rights	32

Terrace Gardens, Inc. has assigned the following useful lives to its capital assets: Buildings, 50 years; Building improvements, 10-50 years; and Equipment, 5-7 years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2013	Additions	Retirements	Transfers	Transfers to/from Successor Agency	Balance at June 30, 2014
Capital assets not being depreciated:						
Land	\$58,611,487		(\$13,400,000)		\$12,354,870	\$57,566,357
Construction in progress	10,938,048	\$8,005,807	(623,649)	(\$80,426,865)	78,533,256	16,426,597
Total capital assets not being depreciated	69,549,535	8,005,807	(14,023,649)	(80,426,865)	90,888,126	73,992,954
Capital assets being depreciated:						
Buildings and improvements	96,323,815			66,384,911		162,708,726
Other improvements	26,160,928			320,619		26,481,547
Machinery and equipment	35,793,830	592,808	(254,993)	2,291,778		38,423,423
Landscape system	29,638,454	9,564				29,648,018
Storm system	74,299,423					74,299,423
Street system	229,516,480	845,895		11,379,176		241,741,551
Traffic system	18,835,060	34,088		50,381		18,919,529
Total capital assets being depreciated	510,567,990	1,482,355	(254,993)	80,426,865		592,222,217
Less accumulated depreciation for:						
Buildings and improvements	(47,130,755)	(4,743,916)				(51,874,671)
Other improvements	(17,075,590)	(773,018)				(17,848,608)
Machinery and equipment	(23,084,949)	(2,445,300)	254,993			(25,275,256)
Landscape system	(11,715,798)	(593,961)				(12,309,759)
Storm system	(69,601,506)	(642,278)				(70,243,784)
Street system	(172,784,424)	(5,681,933)				(178,466,357)
Traffic system	(11,534,216)	(684,109)				(12,218,325)
Total accumulated depreciation	(352,927,238)	(15,564,515)	254,993			(368,236,760)
Net capital assets being depreciated	157,640,752	(14,082,160)		80,426,865		223,985,457
Governmental activity capital assets, net	\$227,190,287	(\$6,076,353)	(\$14,023,649)		\$90,888,126	\$297,978,411

Current year land retirements include the transfer of a land parcel from capital assets to property held for resale in the General Fund in the amount of \$13,400,000, which has been reported as a Special Item.

Transfers to and from the Successor Agency are discussed in Note 17F.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2014:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Alviso Adobe Renovations	\$5,424,272	\$5,404,166	\$20,106
Park Irrigation System Rehabilitation	400,000	376,008	23,992
Park Renovation Project	277,778	243,785	33,993
Main Street Park	350,000	188	349,812
Park Renovation Project	400,000	105,513	294,487
Pinewood Park Picnic Renovation	2,000,000	740,342	1,259,658
Higuera Adobe Park	300,000	353	299,647
Park Irrigation System	150,000	49,919	100,081
2009 Finance System Upgrade	125,000	125,000	
McCarthy Blvd Landscape	550,000	51,210	498,790
Fire Station Improvements	1,500,000	374,168	1,125,832
City Building Improvements	700,000	556,416	143,584
Midtown Parking Garage	113,804	23,053	90,751
MSC Facility Improvement	1,300,000	676,845	623,155
Police/Public Works Generator	100,000		100,000
Public Works/Police Building	300,000	243,225	56,775
Sinclair LMD Improvements	60,000	21,154	38,846
Street Resurfacing 2014	2,579,288	1,838,864	740,424
Storm Drain System	700,000	125,522	574,478
Fuel Tank Improvements	188,000		188,000
Minor Storm Drain Project	216,729	137,523	79,206
Storm Pump Station Improvements	28,590	526	28,064
Transit Area Storm Drainage Plan	150,000		150,000
Light Rail Median Lane	6,005,000	1,732,817	4,272,183
Second SCVWD Water Reservoir & Pump Station	200,000		200,000
TASP Recycled Water Line	1,000,000		1,000,000
Milpitas Boulevard Eastern Extension	17,000,000	3,600,000	13,400,000
Total construction in progress	<u>\$42,118,461</u>	<u>\$16,426,597</u>	<u>\$25,691,864</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

B. Business-Type Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2013	Additions	Transfers	Balance at June 30, 2014
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	17,708,473	\$821,403	(\$12,287,007)	6,242,869
Total capital assets not being depreciated	18,841,552	821,403	(12,287,007)	7,375,948
Capital assets being depreciated:				
Distribution facilities	67,261,796		12,287,007	79,548,803
Service lines	12,913,949			12,913,949
Sewer lines	77,369,820			77,369,820
Capacity rights	41,885,902	4,526,553		46,412,455
Total capital assets being depreciated	199,431,467	4,526,553	12,287,007	216,245,027
Less accumulated depreciation for:				
Distribution facilities	(43,924,373)	(1,293,635)		(45,218,008)
Service lines	(5,170,869)	(234,944)		(5,405,813)
Sewer lines	(41,267,641)	(1,543,652)		(42,811,293)
Capacity rights	(14,105,707)	(1,353,895)		(15,459,602)
Total accumulated depreciation	(104,468,590)	(4,426,126)		(108,894,716)
Net capital assets being depreciated	94,962,877	100,427	12,287,007	107,350,311
Business-type activity capital assets, net	<u>\$113,804,429</u>	<u>\$921,830</u>		<u>\$114,726,259</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2014:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Main SPS Site Improvements	\$2,302,000	\$2,159,795	\$142,205
Minor Sewer Projects	35,000	3,470	31,530
Sewer System Replacement 1	1,500,000	204,865	1,295,135
Sewer System Replacement	1,500,000	59,943	1,440,057
TASP Sewer Line Replacement	5,000,000		5,000,000
Pressure Reducing Valve Replacement	320,000	41,184	278,816
Well Upgrade Program	4,645,000	1,799,303	2,845,697
Water System Seismic Improvements	6,187,951	681,774	5,506,177
Ayer Reservoir & Pump Station Improvements	1,050,000	658,802	391,198
Water System Replacement 08-09	700,000	118,675	581,325
Hydrant Replacement	170,000	621	169,379
Minor Water Projects	95,000	8,306	86,694
Turnout Improvements	150,000		150,000
Water Meter Replacement	75,000	26,932	48,068
Cathodic Protection I	725,000	469,733	255,267
Minor Water Projects	150,000	754	149,246
Abel Street Pipeline Extension	350,000	329	349,671
Dempsey Road Water Line Replacement	500,000	8,383	491,617
Water Supply Blending Study	100,000		100,000
Total construction in progress	<u>\$25,554,951</u>	<u>\$6,242,869</u>	<u>\$19,312,082</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

C. Terrace Gardens, Inc.'s Capital Assets

The following is a summary of Terrace Gardens Inc's changes in capital assets for the fiscal year ended December 31, 2013:

	Balance December 31, 2012	Additions	Balance December 31, 2013
Capital assets not being depreciated:			
Land	\$1,565,277		\$1,565,277
Construction in Progress	17,132	\$29,526	46,658
Total capital assets not being depreciated	<u>1,582,409</u>	<u>29,526</u>	<u>1,611,935</u>
Capital assets being depreciated:			
Buildings	11,530,679	29,601	11,560,280
Furniture	208,087	62,191	270,278
Office equipment	65,096		65,096
Improvements	<u>2,142,288</u>	<u>261,605</u>	<u>2,403,893</u>
Total capital assets being depreciated	<u>13,946,150</u>	<u>353,397</u>	<u>14,299,547</u>
Less accumulated depreciation	<u>(6,267,187)</u>	<u>(377,832)</u>	<u>(6,645,019)</u>
Net capital assets being depreciated	<u>7,678,963</u>	<u>(24,435)</u>	<u>7,654,528</u>
Total capital assets, net	<u><u>\$9,261,372</u></u>	<u><u>\$5,091</u></u>	<u><u>\$9,266,463</u></u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS (Continued)

D. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

<i>Governmental Activities:</i>	
General Government	\$4,254,349
Public Works	8,478,974
Parks and Recreation	838,096
Police	843,352
Fire	350,059
Internal Service Fund	799,685
Total Governmental Activities	\$15,564,515
 <i>Business-Type Activities:</i>	
Water Utility	\$1,528,579
Sewer Utility	2,897,547
Total Business-Type Activities	\$4,426,126
 <i>Discretely Presented Component Unit:</i>	
Terrace Gardens, Inc.	\$377,832

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 7.638% of the total plant capacity. The City has capitalized its share in the amount of \$46,412,455. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2014 the City's operation and maintenance share was approximately 6.454% of the total WPCP operations.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 9 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

A. Current Year Transactions and Balances

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2013	Retirements	Balance June 30, 2014	Current Portion
Purchase Agreement with Mission West Properties					
0%, due February 15, 2016	\$21,780,000	\$9,828,464	\$3,828,464	\$6,000,000	\$3,000,000
Cisco Phone System Capital Lease					
0.620%, due September 18, 2016	480,302	359,636	85,686	273,950	88,442
Total Governmental Activity Debt	<u>\$22,260,302</u>	<u>\$10,188,100</u>	<u>\$3,914,150</u>	<u>\$6,273,950</u>	<u>\$3,088,442</u>
Business-type Activity Debt:					
Sewer Certificates of Participation, 2006 Series A					
3.4% - 4.20%, due November 1, 2026	\$9,535,000	\$7,315,000	\$405,000	\$6,910,000	\$420,000
Total Business-type Activity Debt	<u>\$9,535,000</u>	<u>\$7,315,000</u>	<u>\$405,000</u>	<u>\$6,910,000</u>	<u>\$420,000</u>

B. Mission West Purchase Agreement

In February 2011, the former Redevelopment Agency entered into an Agreement with Mission West Properties to purchase 10.89 acres of land in three parcels for \$21,780,000 in the Milpitas Redevelopment Project Area No. 1 to be used as open space. The Agency assigned the Agreement to the Economic Development Corporation in March 2011. A down payment of \$3 million was due on or before December 31, 2011. The remaining balance does not bear interest and is due in four annual installments of \$3 million and one final installment. The purchase is to be funded by park in lieu fees collected by the City on certain land parcels as specified in the Agreement. The City agrees to transfer the park in lieu fees to the Corporation as they are collected and the Corporation agrees to pay the same amount to the seller in addition to the annual installments to reduce the outstanding balance of the purchase price. The fifth installment payment is contingent upon the City's receipt of the park in-lieu fees. On the fifth anniversary of the effective date of the Agreement, if the City has not received any park in lieu fees from one of the parcels, the Corporation is to pay \$3 million. However, if on the fifth anniversary the City has not received any park in lieu fees from two of the parcels, the Corporation need not pay the remaining balance of \$3.78 million until the City collects and transfers the park in lieu fees to the Corporation. In fiscal year 2014, \$828,464 in park in-lieu fees were received and paid to Mission West Properties, and park in-lieu fees paid to Mission West Properties to date total \$3.78 million.

As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the property was conveyed to the City, and the City assumed the Purchase Agreement from the Corporation.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 9 - LONG TERM DEBT (Continued)

C. Cisco Phone System Capital Lease

In September 2012, the City entered into a purchase agreement in the amount of \$480,302 at 0.62% interest with Key Government Finance, Inc. to finance the purchase and installation of the City's phone system. Principal and interest payments of \$97,252 are due each September 18 through 2016.

D. Sewer Certificates of Participation, 2006 Series A

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of \$9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2014, net revenues amounted to \$5,401,688, which represented coverage of 7.90 over the \$683,965 of debt service. In lieu of a reserve fund, the COPs are secured by a \$695,758 surety bond issued by the MBIA Insurance Corporation. Principal is payable annually and interest is payable semi-annually through 2027.

E. Debt Service Requirements

Annual debt service requirements are shown below:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Total Principal	Total Interest	Total Principal	Total Interest
2015	\$3,088,442	\$8,810	\$420,000	\$264,528
2016	3,091,286	5,966	435,000	249,348
2017	94,222	3,030	450,000	233,193
2018			470,000	216,055
2019			485,000	198,027
2020 - 2024			2,730,000	683,843
2025 - 2027			1,920,000	122,829
	<u>\$6,273,950</u>	<u>\$17,806</u>	<u>\$6,910,000</u>	<u>\$1,967,823</u>

F. Defeased Bonds

As of June 30, 2014, outstanding balances for defeased debt were \$20,955,000 for the Redevelopment Agency 1997 Tax Allocation Bonds and \$845,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET POSITION AND FUND BALANCES

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

Net Position is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

A. Net Position

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Net Investment in Capital Assets and Capacity Rights, describes the portion of Net Position which is represented by the current net book value of the City's capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets. Net investment in Capital Assets and Capacity Rights for the Governmental Activities is calculated as follows:

Total capital assets and capacity rights	\$297,978,411
Total outstanding debt	<u>(6,273,950)</u>
Net Investment in Capital Assets	<u>\$291,704,461</u>

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and redevelopment funds restricted for community development activities.

Unrestricted describes the portion of Net Position which is not restricted as to use.

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee, the Finance Director. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Detailed classifications of the City's Fund Balances, as of June 30, 2014, are below:

Fund Balance Classifications	General Fund	Major Special Revenue Funds		Major Capital Projects		Other Governmental Funds	Total
		Economic Development Corporation	Housing Authority	Street Improvement Fund	Transit Area Impact Fee Fund		
Nonspendable:							
Prepays, materials, supplies and deposits	\$679,480		\$3,257			\$28,393	\$711,130
Property held for resale	17,600,000						17,600,000
Advance to other funds	5,000,000						5,000,000
Subtotal Nonspendable	23,279,480		3,257			28,393	23,311,130
Restricted for:							
Redevelopment Projects and Programs		\$4,093,238					4,093,238
Street and Road Improvements and Maintenance				\$7,492,517		3,277,966	10,770,483
Housing and community development			21,025,477			3,439,864	24,465,341
Law enforcement services						235,540	235,540
Solid waste reduction and services						2,024,541	2,024,541
Assessment district services						396,735	396,735
Hetch-Hetchy ground lease						1,680,890	1,680,890
Park improvement projects						16,877,085	16,877,085
Storm drain projects						2,117,327	2,117,327
Subtotal Restricted		4,093,238	21,025,477	7,492,517		30,049,948	62,661,180
Committed to:							
PERS stabilization	5,432,703						5,432,703
Assigned to:							
Uninsured claims payable	2,816,694						2,816,694
Public art projects						143,597	143,597
Other contracts	426,246						426,246
General government capital projects	3,415,534					11,664,810	15,080,344
Subtotal Assigned	6,658,474					11,808,407	18,466,881
Unassigned:							
General Fund	13,520,552						13,520,552
Other governmental fund deficit residuals					(\$6,609,643)		(6,609,643)
Subtotal Unassigned	13,520,552				(6,609,643)		6,910,909
Total fund balances (deficit)	\$48,891,209	\$4,093,238	\$21,028,734	\$7,492,517	(\$6,609,643)	\$41,886,748	\$116,782,803

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. *Minimum Fund Balance Policies*

The City's Budget Guidelines and Fiscal Policies require the City to strive to maintain the following fund balances:

- 1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished from unassigned fund balance after the 15% requirement of the operating expenditures has been met.
- 3) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside \$500,000 annually from the General Fund reserve for this purpose.
- 4) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated and adjusted annually at appropriate levels.
- 5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs and pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 6) Maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 7) Maintain at least \$300,000 in the Recycled Water Utility Enterprise Fund (a component of the Water Utility Enterprise Fund) for the purpose of infrastructure replacement and enhancement.
- 8) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.
- 9) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of \$300,000 in the Equipment Management Internal Service Fund.

D. *Fund Balance Deficit*

The Transit Area Impact Fee Capital Projects Fund had deficit fund balance of \$6,609,643. The deficit will be eliminated by future revenues.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

E. Fund Balance and Net Position Restatements

The City determined that water and sewer developer fees had been recorded in the Street Improvement Capital Projects Fund in prior years. The developer fees should have been recorded in the Water and Sewer Enterprise Funds. Beginning fund balance as of July 1, 2013 in the Street Improvement Capital Projects Fund has been restated and reduced in the amount of \$2,296,059 and beginning net position in the Water and Sewer Enterprise Funds has been restated and increased in the amounts of \$303,301 and \$1,992,758, respectively.

NOTE 11 - PERS PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

All qualified permanent and probationary employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

	Safety		
Hire Date	Prior to April 8, 2012	After April 8, 2012	After January 1, 2013
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age (range)	50	50 - 55	50 - 57
Monthly benefits, as a % of annual salary	3%	2.4 - 3%	2.0 - 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	32.931%	32.931%	32.931%

	Safety
Actuarially required contributions	\$5,757,790

	Miscellaneous		
Hire Date	Prior to October 9, 2011	After October 9, 2011	After January 1, 2013
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age (range)	50 - 55	55 - 60	52 - 62
Monthly benefits, as a % of annual salary	2.0 - 2.7%	1.092 - 2%	1.0 - 2%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	21.115%	21.115%	21.115%

	Miscellaneous
Actuarially required contributions	\$3,328,651

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liabilities. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<i>Safety Plan</i>			
June 30, 2012	\$5,135,662	100%	\$0
June 30, 2013	5,578,503	100%	0
June 30, 2014	5,757,790	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2012	\$3,335,630	100%	\$0
June 30, 2013	2,968,004	100%	0
June 30, 2014	3,328,651	100%	0

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. For the most recent actuarial report, as of June 30, 2012, an investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and approximately 6 percent of the net balance is amortized annually over a rolling thirty year period.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						Unfunded
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2010	\$172,166,024	\$215,540,204	\$43,374,180	79.9%	\$19,084,180	227.278%
2011	181,010,553	230,193,199	49,182,646	78.6%	18,135,987	271.188%
2012	189,083,568	242,400,943	53,317,375	78.0%	18,718,598	284.836%

Miscellaneous Plan:

Actuarial						Unfunded
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2010	\$124,779,616	\$151,572,411	\$26,792,795	82.3%	\$20,504,290	130.669%
2011	132,512,273	162,749,601	30,237,328	81.4%	19,964,595	151.455%
2012	139,306,261	168,715,805	29,409,544	82.6%	15,906,633	184.889%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709. CALPERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS has reported that the value of the net assets in the Plans held for pension benefits changed during the year ended June 30, 2012 (the most recent available) as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Beginning Balance 6/30/11	\$181,010,553	\$132,512,273
Contributions received	7,351,373	5,096,054
Benefits and Refunds Paid	(10,347,533)	(6,446,079)
Miscellaneous Adjustments	(321,962)	(691,668)
Expected Investment Earnings Credited	<u>13,448,561</u>	<u>9,854,489</u>
Expected Actuarial Value of Assets 6/30/12	<u>\$191,140,992</u>	<u>\$140,325,069</u>
Market Value of Assets 6/30/12	<u>\$157,460,622</u>	<u>\$116,242,962</u>
Actuarial Value of Assets 6/30/12	<u>\$189,083,568</u>	<u>\$139,306,261</u>

Additional disclosures will be included when made available by PERS.

B. Public Agency Retirement System

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$21,779 and the employee's required contributions of \$87,115 were made during the fiscal year ending June 30, 2014.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - EMPLOYEE BENEFITS

A. *Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

B. *Retiree Medical Benefits*

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2014 there were 232 participants receiving these health care benefits.

The City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of City's eligible health plans. In addition, there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) with each employee group. In the MOUs, the Benefit Cap is defined as not more than the single medical premium rate paid by the City for active employees, and the Retiree Cap is 15% above the single Kaiser medical premium rate. The eligibility rules for each MOU are summarized below.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired prior to July 1, 1995	At least 5	If retirement occurred between July 1, 1990 and September 1, 2002: - Any employee only medical premium rate If retirement occurs after September 1, 2002: - Benefit cap
	Hired on or after July 1, 1995 and retired on or after September 1, 2002	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Mid- Management and Confidential (LIUNA)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Fire Safety (IAFF)	Retired prior to January 1, 1990	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution (\$83.30 per month in 2014)
	Retired January 1, 1990 - December 31, 1994	N/A	Any employee only premium
	Hired prior to January 1, 1995 and retired on or before February 20, 2007	1 but less than 10 At least 10	50% of the benefit cap 100% of the benefit cap
	Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10 At least 10	Up to 50% of the lesser of the retiree cap and the premium rate Up to 100% of the lesser of the retiree cap and the premium rate
	Hired on or after January 1, 1995 and retire on or before February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
	Hired on or after January 1, 1995 and retired after February 20, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	25% of the lesser of the retiree cap and premium rate 50% of the lesser of the retiree cap and premium rate 75% of the lesser of the retiree cap and premium rate 100% of the lesser of the retiree cap and premium rate

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Retired Prior to January 1, 1989	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution (\$83.30 per month in 2014)
	Hired prior to January 1, 1996	At least 5	If retirement occurs on or before June 30, 2003 - Any single, medical premium rate If retirement occurs on or after July 1, 2003 - up to the retiree cap
	Hired on or after January 1, 1996	1 but less than 9 full years of service 9 but less than 14 full years of service 14 but less than 19 full years of service At least 19 full years of service	Up to 25% of the retiree cap Up to 50% of the retiree cap Up to 75% of the retiree cap Up to 100% of the retiree cap
Employee Association (MEA)	Hired prior to June 30, 1996	At least 5	If retirement occurs on or before July 17, 1989 - None If retirement occurs between July 17, 1989 and March 18, 2003 - Any employee only medical premium rate If retirement occurs after March 18, 2003 -Benefit cap
	Hired on or after June 30, 1996	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City Up to 50% of the lowest cost employee only premium Up to 75% of the lowest cost employee only premium Up to 100% of the lowest cost employee only premium
Supervisors (MSA)	Hired prior to June 30, 1995	At least 5	If retirement occurs before November 27, 2007 -Any employee only medical premium rate If retirement occurs on or after November 27, 2007 -Benefit cap
	Hired on or after June 30, 1995 and retire after November 27, 2007	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap

Funding Policy and Actuarial Assumptions

The City's policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City's annual budget approved by Council. The annual required contribution (ARC) for the year ended June 30, 2014 was determined as part of a July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.50% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health costs trend rates of 5.50%-7.00% for medical and 3.0% for dental. The health care cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The actuarial value of assets is based upon the balance in the CERBT Trust. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The actuarial study indicates that as of July 1, 2013, the actuarial accrued liability was estimated to be \$60,933,391.

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2014, the City contributed the ARC of \$3,710,039 to the Plan. As a result, the City has calculated and recorded the Net OPEB Asset/Liability, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	\$3,710,039
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	3,710,039
Contributions made	<u>(3,710,039)</u>
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2013	<u>0</u>
Net OPEB obligation (asset) June 30, 2014	<u><u>\$0</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013, amounted to \$60,933,391. The AAL is partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income, net of current year premiums reimbursed to the City, resulted in assets with CERBT of \$31,043,576 as of June 30, 2014, which partially funds the actuarial accrued liability.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2012, 2013 and 2014 are set forth below:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2012	\$3,343,969	\$3,343,969	100%	\$0
June 30, 2013	3,475,268	3,475,268	100%	0
June 30, 2014	3,710,039	3,710,039	100%	0

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the latest available actuarial studies is presented below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll</u>
7/1/2009	\$9,931,187	\$41,161,985	\$31,230,798	24.13%	\$42,390,000	73.67%
7/1/2011	19,032,986	48,698,709	29,665,723	39.08%	41,200,000	72.00%
7/1/2013	24,778,279	60,933,391	36,155,112	40.66%	35,200,000	102.71%

C. Accrued Vacation and Sick Leave Liabilities

Employees accrue vacation up to certain maximums, based on employee classification. Employees may elect to be paid a portion of their vacation at various times according to the applicable memorandum of understanding. Sick leave may be accumulated without limit. Vested sick leave may be paid upon separation from service in good standing and is based on a vesting schedule determined by years of service.

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2014, sick leave benefits payable increased by \$247,104 and vacation benefits payable increased by \$71,284. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The changes of the Accrued Vacation and Sick Leave Liabilities and the allocation of each liability among the departments are as follows:

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2013	\$4,267,428	\$203,704	\$3,557,901	\$161,110
Additions	2,420,050	266,788	1,565,217	158,732
Payments and adjustments	(2,398,868)	(216,686)	(1,418,381)	(58,464)
Balance as of June 30, 2014	<u>\$4,288,610</u>	<u>\$253,806</u>	<u>\$3,704,737</u>	<u>\$261,378</u>
General Government	\$465,656		\$212,273	
Building	156,681		94,194	
Public Works	151,137		63,321	
Engineering and Planning	192,399		237,748	
Recreation	73,586		64,825	
Police	2,317,771		1,200,113	
Fire	873,679		1,805,824	
Water Utility		\$126,903		\$130,689
Sewer Utility		126,903		130,689
Internal Service	57,701		26,439	
Total	<u>\$4,288,610</u>	<u>\$253,806</u>	<u>\$3,704,737</u>	<u>\$261,378</u>
Long-Term Portion:				
Governmental activities	\$3,736,435		\$3,403,125	
Business-type activities		\$119,806		\$190,806
Total long term portions	<u>\$3,736,435</u>	<u>\$119,806</u>	<u>\$3,403,125</u>	<u>\$190,806</u>
Current Portion:				
Governmental activities	\$552,175		\$301,612	
Business-type activities		\$134,000		\$70,572
Total current portions	<u>\$552,175</u>	<u>\$134,000</u>	<u>\$301,612</u>	<u>\$70,572</u>

Accrued Vacation and Sick Leave are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 13 - RISK MANAGEMENT

A. *Risk Pool*

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$5,000,000 of self-funded general liability and auto coverage and \$25,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. ABAG Plan also provides \$1,000,000 of employee theft coverage in excess of the City's \$5,000 deductible, and \$2,000,000 of cyber crime coverage (with various sub-limits depending on the type of cyber crime) in excess of the City's \$50,000 deductible. ABAG Plan provides coverage for property damage up to \$1 billion. The City retains a self-insured amount of \$5,000 for each property and \$5,000 for each vehicle per occurrence.

During the fiscal year ended June 30, 2014 the City contributed \$493,109 for current year coverage.

ABAG Plan is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG Plan funding policies and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's annual contributions to ABAG Plan are calculated based on the ratio of the City's payroll to the total payrolls of all entities participating in the program and the City's loss experience. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

B. *Workers Compensation*

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of \$20,000,000. The City has a deductible or uninsured liability of up to \$750,000 per claim for miscellaneous employees and \$1,000,000 for public safety employees.

C. *Dental*

The City is self-insured for dental care for miscellaneous employees up to a maximum of \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2014 the City paid \$612,918 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 13 - RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims is limited to worker's compensation and general liability claims, as discussed above, and was computed as follows based on claims experience:

	2014			
	Worker's Compensation	General Liability	Total	2013
Beginning balance	\$2,818,944	\$601,114	\$3,420,058	\$3,717,884
Liability for current fiscal year claims	543,444	492,095	1,035,539	860,951
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	1,351,015	1,670,898	3,021,913	(276,998)
Claims paid	(929,633)	(180,662)	(1,110,295)	(881,779)
Ending balance	<u>\$3,783,770</u>	<u>\$2,583,445</u>	<u>\$6,367,215</u>	<u>\$3,420,058</u>
Due in one year	<u>\$777,789</u>	<u>\$143,380</u>	<u>\$921,169</u>	<u>\$861,637</u>

Settlements have not exceeded insurance coverage in the past three fiscal years.

NOTE 14 – SETTLEMENT WITH THE COUNTY AND OTHER PARTIES

The City, Economic Development Corporation and Housing Authority entered into a settlement agreement in June 2014 with the Santa Clara County Auditor-Controller, State Controller and other parties to resolve the dispute over cash and capital assets that had been transferred to the Economic Development Corporation prior to the dissolution of the former Milpitas Redevelopment Agency as discussed in Note 17. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling \$48,330,360 to the Successor Agency and Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress in the amount of \$98,129,255 to the City.

In addition, due to the Settlement Agreement requirement that the interest rate on the interfund advances in the Transit Area Development Impact Fee Capital Projects Fund (TASP loans) be limited to the rates of the Local Agency Investment Fund discussed in Note 4B, the City wrote off the remaining balance of interest due on the advances in the amount of \$428,713. Unrelated to the settlement agreement, after the capital assets were transferred to the City, the City determined that land in the amount of \$13,400,000 should be reported as property held for resale and transferred that balance from capital assets to the General Fund.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 14 – SETTLEMENT WITH THE COUNTY AND OTHER PARTIES (Continued)

The transactions pursuant to the settlement agreement, reported as a Special Item in the City's financial statements, comprised the following:

Cash paid to the County Auditor-Controller	(\$41,089,231)
Capital asset transferred to property held for resale (see Note 8A)	13,400,000
Adjustment to interest on TASP loans	428,713
Subtotal - Governmental Funds	(27,260,518)
Capital asset transferred to property held for resale (see Note 8A)	(13,400,000)
Property transferred to the Successor Agency	(7,241,129)
Capital assets transferred from the Successor Agency	98,129,255
Adjustment to interest on TASP loans	(428,713)
Special Item Reported on the Statement of Activities	<u>\$49,798,895</u>

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

A. *Litigation*

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

B. *Federal and State Grant Programs*

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act as amended and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. *Encumbrances*

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2014 were as follows:

Major Governmental Funds:	
General Fund	\$426,246
Economic Development Corporation	4,425
Street Improvement Fund	477,112
Transit Area Impact Fee Fund	169,653
Non-Major Governmental Funds	<u>2,160,309</u>
Total Encumbrances	<u><u>\$3,237,745</u></u>

D. *Silicon Valley Rapid Transit Program Berryessa Extension Project*

In September 2010, as amended, the City entered into a Master Agreement with the Santa Clara Valley Transportation Authority (VTA) to define the respective rights and obligations of each party and to ensure future cooperation between the City and VTA in connection with the Silicon Valley Rapid Transit Program Berryessa Extension Project. The Project is funded in part with funds made available to VTA by the Federal Transit Administration, and VTA will perform all acquisition, design and construction activities related to the Project.

Under the terms of the Master Agreement, VTA is entitled to reimbursement from the City's Transit Area Specific Plan (TASP) developer fees for a portion of the costs related to the eastern segment of the Milpitas Boulevard extension. The City's reimbursement commitment for this phase of the Project is not to exceed \$17.0 million and is repayable as the TASP developer fees become available. Although the VTA has first priority to the available TASP funds, the payment is subordinated to the City's existing interfund advances to the Transit Area Impact Fee Capital Projects Fund.

The Milpitas Boulevard extension project began in fiscal year 2014 and the VTA has billed the City for project costs in the amount of \$3.6 million through June 30, 2014. The Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment, therefore, the City has recorded a liability in the amount of \$3.6 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2014.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

E. South Bay Water Recycling System Facility Replacement

As required by the Water Pollution Control Plant's National Pollutant Discharge Elimination System (NPDES) permit, the regional partner agencies are responsible for maintenance and operation of the South Bay Water Recycling System. The regional partner agencies, which includes the City of Milpitas, are also responsible for the planned \$2 billion rehabilitation/replacement of the facility over the next thirty years. The City's share of the project is approximately 6.454% as discussed in Note 8E.

F. Bay Area Water Supply and Conservation Agency Revenue Bonds Surcharge

The City contracts with the City and County of San Francisco for the purchase of water from the Hetch Hetchy System operated by the San Francisco Public Utilities Commission (SFPUC). The City is also a member of the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interests of all the 24 cities and water districts, as well as two private utilities, that purchase wholesale water from the SFPUC.

In 2009 the City entered into a new 25 year agreement with the SFPUC that includes a minimum water delivery level of 5.341MGD. One of the ways that the new agreement differs from the old is in how facilities constructed by the SFPUC that benefit the regional customers are treated from a rate and financial perspective. Under the old agreement, facilities were built, capitalized, and added to the rate base with a rate of return (interest), and then paid for over their useful lives through wholesale rates. Under the new agreement, the SFPUC issues revenue bonds and the debt service (which also includes an interest component) is paid for through rates over the life of the bonds.

During the transition from the old to the new contracts, one of the issues addressed was how to deal with the \$370 million in assets that were still being paid for by the wholesale customers under the old agreement. The assets were transferred to the new agreement, assigned a life with an agreed upon rate of return of 5.13%. Also negotiated was a provision to allow the wholesale customers to prepay any remaining existing assets' unpaid principal balance without penalty or premium. This prepayment was executed through the issuance of bonds by BAWSCA which provide a better interest rate given the favorable rate environment.

BAWSCA issued Revenue Bonds in the principal amount of \$335,780,000 in January 2013 to prepay the capital cost recovery payment obligation and fund a stabilization fund. The Bonds mature in October 2034 and are secured by surcharges to the monthly water purchase charges imposed upon the participating members. The Bonds are not a debt obligation of any member, and BAWSCA's failure to pay its Bonds would not constitute a default by any participating member.

Should any participating member fail to pay its share, BAWSCA will rely on the stabilization fund and will pursue all legal remedies to collect the shortfall from the delinquent member. In the interim, other participating members may have their portion adjusted to insure the continued payment of the debt service surcharge.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The risk of bearing the debt service expense of a defaulting member is not significantly different than the risk each member assumes currently for fluctuations in water purchase charges. Under the Bond indenture, BAWSCA maintains a stabilization fund. If surcharge revenues collected are less than needed (due to a member's failure to pay timely), BAWSCA uses the stabilization fund to fund the debt service deficiency, and increases the surcharge in the subsequent year to make up for the prior year shortfall and reimburse the stabilization fund account. Also, given that each participating agency's governing body adopted a Resolution to participate in the Bond issue, Management believes that default is generally very unlikely.

The annual debt service surcharges are a fixed amount for each participant and are calculated by taking the subsequent fiscal year's debt service, multiplied by each participant's actual water purchase as a percent of total wholesale customer water purchases from the prior fiscal year. One-twelfth of the annual surcharge is included in the monthly bill from SFPUC. Because each participant's share of the debt service surcharge is proportional to the amount of water purchased during the prior fiscal year, the City's share of the debt service will fluctuate from year to year.

The City paid its surcharge of \$1,057,528 during fiscal year 2014, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2015 is estimated to be \$1,072,174.

NOTE 16 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of each of these issues as of June 30, 2014 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2014
			Annual Amount	Fiscal Years Ended	
LID #18 Phase II	1997	6.75%	\$310,000 - 360,000	2015-2017	\$1,005,000
LID #18	1999	5.85%	230,000 - 285,000	2015-2019	1,280,000
LID #18 Refunding	1998	5.65%	695,000	2015	695,000
LID #20	1999	5.70%	1,070,000 - 1,330,000	2015-2019	5,975,000
Total					<u>\$8,955,000</u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. REDEVELOPMENT DISSOLUTION

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

ABx1 26 and AB1484 created three regulatory authorities, the Successor Agency Oversight Board, State Controller and Department of Finance (DOF), to review former Agency's asset transfer, obligation payments and wind down activities. ABx1 26 specifically directs the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. The State Controller's Office completed its asset transfer review of the Milpitas Redevelopment Agency for the period from January 1, 2011 through January 31, 2012 in August 2012. The review resulted in a demand that the City return assets comprised of cash and investments, property held for resale and capital assets totaling \$147,108,600 be transferred to the Milpitas Redevelopment Successor Agency. However, the results of the State Controller's review also included an incomplete list of housing assets that should have been transferred to the Housing Successor Agency, instead of the Milpitas Redevelopment Successor Agency.

Subsequent to the State Controller's review, the DOF also reviewed the housing assets inventory list and approved a majority of the non-cash assets as Housing Assets. The assets that were approved included all the housing loans that were committed to third parties, housing properties held for resale, and land planned for low-moderate income housing purposes. In November 2012, the DOF completed the first phase of the Due Diligence Review (DDR) of the Low and Moderate Housing Fund's cash balance available for allocation to the affected taxing entities. The City complied with the DOF's determination by transmitting the payment of \$6,582,557 to the County Auditor-Controller in November 2012.

The City returned property held for resale of \$374,253 to the Agency's Housing Reserve Special Revenue Fund and \$1,800,000 to the Redevelopment Capital Projects Fund, and \$6,988,800 to the Successor Agency, but due to the conflicting orders of the State Controller and DOF and also to protect the Milpitas entities interest, the City opted to wait for the completion of the second phase of the DDR of the non-housing cash balance to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. Therefore, additional adjustments resulting from the State Controller's review were not reflected in the Redevelopment Agency's balances as of January 31, 2012. See Note 17F for the resolution of adjustments.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

Effective January 31, 2012, the Redevelopment Agency was dissolved. Certain assets of the Redevelopment Agency Housing Reserve Fund were distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities were distributed to a Successor Agency.

Under the provisions of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City's Housing Authority elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Housing Authority Special Revenue Fund.

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 26, 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

The activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

Cash and investments of the Successor Agency as of June 30, 2014 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2014.

B. PROPERTY HELD FOR RESALE OR REDEVELOPMENT

In August 2000, the Agency purchased land from the Santa Clara Valley Transportation Authority in the amount of \$6,988,800 which is being held for future development projects. Pursuant to the settlement agreement discussed in Note 17F, the City conveyed four parcels to the Successor Agency in fiscal year 2014, which are held for future sale.

As of June 30, 2014, property totaling \$18,028,814 is held by the Successor Agency.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

C. DEVELOPMENT AGREEMENTS

The Successor Agency assumed the obligations of the Redevelopment Agency's Disposition and Development Agreements as follows:

1. Installment Purchase Agreement

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for \$57,750,000 in cash and \$135,000,000 payable over eighteen years at no interest.

The Agency also agreed to re-sell this land to developers for a total of \$57,750,000, of which \$40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development.

In addition, starting in 2024 the Agency is required to pay the County the greater of \$2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are in the Midtown Area, but not to exceed \$5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

2. County of Santa Clara

In August 2006, the Agency entered into a Disposition and Development Agreement with the County of Santa Clara to construct a health center and a public parking garage. Under the terms of the Agreement, the Agency sold a parcel of land to the County for the construction of the health center for \$1,862,360. In addition, the Agency entered into a Ground Lease Agreement to lease a parcel of land to the County for 75 years for constructing and operating a public parking garage adjacent to the health center site. The Agency constructed certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

3. *Sun Power Corporation*

In February 2011, the Agency entered into a Financing Agreement with SunPower Corporation to reimburse the Corporation for the acquisition and installation of capital equipment for the purpose of producing SunPower solar panels. The Corporation intends to contract with Flextronics Americas to receive shipments of specialized manufacturing equipment and to install and operate the equipment for an initial period of five years and hire and continually employ at least 80 new employees (employment goal). Under the terms of the Agreement, the Agency will reimburse the Corporation \$700,000 after receiving documentation of achieving the employment goal and confirming the applicable equipment was installed. The Agency also committed to reimburse the Corporation an additional \$200,000 per year over a four year period ending on January 1, 2014, if the Corporation continues to meet the manufacturing and employment obligations and has unreimbursed capital equipment and facilities improvement costs. The funding will be incrementally forgiven so long as the Corporation does not cease its relationship with Flextronics Americas or stop using the site for industrial/manufacturing purposes on or before January 1, 2014, but the remaining balance is payable if the Corporation does cease the activities as noted. The agreement terminates January 1, 2016. The Successor Agency expended \$700,000 under the agreement during the year ended June 30, 2012, \$400,000 under the agreement during the year ended June 30, 2013, and \$200,000 under the agreement during the year ended June 30, 2014, which was recorded as a conditional grant, therefore the balance of the loan was offset with an equal allowance for forgiveness of the loan. The Corporation fulfilled a portion of the agreement and \$1,100,000 was forgiven during fiscal year 2014.

Although the terms of the Agreement called for four annual payments to the Corporation, the final payment of \$200,000 remains outstanding, because the Oversight Board did not approve making the payment. The Oversight Board denied the payment, because the Agreement indicates the term of the payments to the Corporation ended on January 1, 2014, although delays in the start of the project delayed the initial payment under the agreement, the terms had not been amended.

D. *CAPITAL ASSETS*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Successor Agency's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Pursuant to the terms of the settlement agreement discussed in Note 17F below, during fiscal year 2014, the Successor Agency transferred land of \$19,595,999 and construction in progress of \$78,533,256 to the City.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

E. LONG-TERM OBLIGATIONS

1. Current Year Transactions and Balances

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2013	Retirements	Balance June 30, 2014	Current Portion
2003 Tax Allocation Bonds				
2%-5.25%, due September 1, 2032	\$157,935,000	\$5,825,000	\$152,110,000	\$6,120,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	28,427,885	3,223,045	25,204,840	3,069,566
Successor Agency Loan Purchase and Sale Agreement with the City of Milpitas	9,472,571	9,472,571		
Total	<u>\$195,835,456</u>	<u>\$18,520,616</u>	<u>\$177,314,840</u>	<u>\$9,189,566</u>

2. 2003 Redevelopment Agency Tax Allocation Bonds

In November 2003, the Agency issued Tax Allocation Bonds in the original principal amount of \$200,000,000 to advance refund and defease the outstanding 1997 and 2000 Tax Allocation Bonds, and to provide financing for various redevelopment projects. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also are secured by a \$13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

The pledge of all future tax increment revenue (housing and non-housing revenue) ends upon repayment of the \$223,875,436 remaining debt service on the bonds which is scheduled to occur in fiscal year 2033. Projected non-housing revenues are expected to provide coverage over debt service of 1.58 over the life of the bonds. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Housing Reserve Special Revenue Fund (housing revenue) were expected to provide coverage over debt service of 13.79 over the life of the bonds. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed and housing set-aside amounts are no longer required, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. The Successor Agency only receives the funds necessary to fulfill its approved obligations. In fiscal year 2014, total tax increment calculated and available for distribution by the County Auditor-Controller was \$40,418,284 and the total received by the Successor Agency was \$19,088,300. The tax increment available for distribution represented coverage of 298% of the \$13,538,234 of debt service.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

3. *Installment Purchase Agreement with the County of Santa Clara*

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 17C(1) above. As discussed in Note 17C (1), under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Successor Agency has therefore recorded a liability of \$25,204,840 at June 30, 2014, representing the present value of future payments due under this Agreement.

4. *Loans From the City*

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was \$20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bore simple interest of 10% annually. The balance of the advance, including principal and accrued interest, was \$21,670,757 as of January 31, 2012.

The loan had previously been reported as an interfund advance between the City and Redevelopment Agency, but with the transfer of the Redevelopment Agency's liabilities to the Successor Agency, the advance was reported as long-term debt of the Successor Agency. The loan was originally required to be repaid by September 7, 2044, however repayment was contingent upon the Successor Agency receiving a Finding of Completion, as defined in Health and Safety Code Section 34179.6. After the Successor Agency receives a Finding of Completion, and under the provisions of Health and Safety Code Section 34191.4(b)(2)(A), the loan can be repaid by the Successor Agency. However, the Successor Agency must apply for approval of the loan by the Oversight Board including a finding that the loan was for legitimate redevelopment purposes. If the Oversight Board finds that the loan is an enforceable obligation, the loan is to be repaid in accordance with a defined schedule over a reasonable term of years. Repayment could not begin prior to fiscal year 2014 and the maximum annual repayment amount was limited based on calculations in the Code Section. In addition, the interest rate on the loan was limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore, the loan balance was adjusted in fiscal year 2012 to reflect the revised interest rate. Pursuant to the terms of the settlement agreement discussed in Note 17F below, the Successor Agency conveyed the eight parcels of land to the City and the City forgave the balance of the loan in the amount of \$9,472,571.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced \$6,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of a land parcel. The advance was due on April 17, 2037 and bore simple interest of 5% annually. The balance of the advance, including principal and accrued interest, was \$7,094,356 as of January 31, 2012. The loan had previously been reported as an interfund advance within the Redevelopment Agency. However, with the transfer of the associated liability to the Successor Agency, the loan is now payable to the Housing Successor to the Agency's housing activities which is the Milpitas Housing Authority, and repayment of the loan is also based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion as discussed above. The interest rate on the loan is also limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore the loan balance was adjusted to reflect the revised interest rate. However, this loan was not deemed an enforceable obligation by the State Department of Finance, and the Successor Agency would not record a liability for this loan until it was approved as an enforceable obligation. The State Department of Finance continues to deny that the loan is an enforceable obligation, and during fiscal year 2014 the City determined that it will no longer pursue collection of the balance of \$6,891,392.

5. Debt Service Requirements

Debt service requirements are shown below for all long-term debt:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$9,189,566	\$9,345,042
2016	9,348,396	9,177,587
2017	9,529,187	8,987,546
2018	9,731,607	8,765,651
2019	10,485,408	9,005,307
2020-2024	54,180,676	37,152,377
2025-2029	50,330,000	12,016,158
2030-2033	24,520,000	2,110,928
	<u>\$177,314,840</u>	<u>\$96,560,596</u>

F. STATE ASSET TRANSFER REVIEW, DEMAND FOR RETURN OF ASSETS, STANDSTILL AGREEMENT AND SETTLEMENT AGREEMENT

The activities of the former Redevelopment Agency and the Successor Agency were subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and as discussed in Note 17A, some of the assets were returned and others remain in the possession of the Economic Development Corporation. It is the City's position that the funds were legally placed with the Economic Development Corporation at the time of the transfer and are not subject to clawback. Therefore, assets totaling \$54,854,616, comprised of current assets of \$31,485,664 and capital assets of \$23,368,952, remained with the Economic Development Corporation as of June 30, 2013.

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

On February 25, 2013, the City, the Corporation and the Successor Agency executed a Standstill Agreement to preserve the assets of the former Redevelopment Agency that had been transferred to the Corporation and to the City. Under the Agreement, the Corporation agrees that it will not transfer, sell or convey any of the property conveyed by the Agency or purchased with assets transferred from the Agency, refrain from incurring new financial obligations and satisfy only its specific outstanding obligations and contracts that are listed in the Agreement, including the payments required for the Mission West Purchase Agreement discussed in Note 9B. Under the Agreement, the City agreed that it would not transfer, sell or convey any of the capital assets or property held for resale conveyed by the former Agency, that the General Fund will reimburse the Successor Agency for any Corporation payments on the contracts listed in the Agreement if a final judicial determination holds that the transfer was invalid or the obligation should not have been paid from Corporation funds, except for the Mission West Purchase Agreement. In the event there was a final judicial decision that the transfers to the City and/or Corporation were invalid and subject to the “clawback” provisions of AB1484, the City and Corporation agreed to return the assets to the Successor Agency.

As noted above, the City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputed the results of the DDR and the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. The County and State filed responses to the City’s complaint. The two cases were coordinated and preceded to a hearing on February 28, 2014. There has not been a final judicial or administrative determination regarding the legality of the retroactive provisions of ABx1 26 and AB1484.

The City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties entered into a settlement agreement in June 2014 to resolve the matters discussed above. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling \$48,330,360 to the Successor Agency and the Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress in the amount of \$98,129,255 to the City. In addition, with the conveyance of certain parcels of land to the City, the City forgave the balance of the Purchase and Sale Agreement in the amount of \$9,472,571.

The transactions pursuant to the settlement agreement have been reported as a Special Item in the Successor Agency’s Statement of Changes in Fiduciary Net Position, which was comprised of the following:

Capital assets transferred from the City	\$7,241,129
Capital assets transferred to the City	(98,129,255)
Loan for the Purchase and Sale Agreement forgiven	<u>9,472,571</u>
Special Item Reported on the Successor Agency's Statement of Changes in Fiduciary Net Position	<u><u>(\$81,415,555)</u></u>

CITY OF MILPITAS
Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES
(Continued)

G. COMMITMENTS AND CONTINGENCIES

1. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

2. Long Range Property Management Plan

In fiscal year 2013, the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. As discussed in Note 17F, the two cases were settled in June 2014 with a settlement agreement executed between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties.

Under the agreement, the Successor Agency and the County will jointly prepare and submit the long range property management plan ("LRPMP") to the Oversight Board for review and approval, all pursuant to Health and Safety Code section 34191.5. The Successor Agency and County intend and will work together to present this plan to the Oversight Board not later than ninety business days following the Successor Agency's receipt of the Finding of Completion. The Successor Agency received a Finding of Completion on June 27, 2014.



NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

Established to account for the City's share of state gasoline taxes which are restricted for use on construction and maintenance of the street system in Milpitas.

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

Established to account for the proceeds from Federal and State asset seizures. This fund also accounts for the Supplemental Law Enforcement Services grant, Local Law Enforcement Block grant, Justice Assistance grant and expenditures. These funds must be used only for specified law enforcement purposes.

SOLID WASTE REDUCTION AND SERVICES FUND

Established to account for landfill tipping fees allocated by Santa Clara County. The County allocates a fee of \$1 per ton to each City to be used in relation to the State of California Waste Reduction Act. Revenue is used for the implementation of waste reduction programs to meet the State required landfill deposits percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste activities.

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for servicing and maintaining the public landscaping and additional lighting for the district.

COMMUNITY FACILITIES DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for providing City services for the district.

HETCH-HETCHY GROUND LEASE FUND

Established to account for the lease payment to the City and County of San Francisco for the permitted use of the Hetch-Hetchy land.

CAPITAL PROJECTS FUNDS:

PUBLIC ART FUND

Established to account for the acquisition and installation of public art. Financing provided by a percentage of eligible project expenditures within the City's Annual Capital Improvement Program.

PARK IMPROVEMENT FUND

Established to account for the construction and maintenance of City parks. A special park improvement fee is imposed on developments to provide financing.

GENERAL GOVERNMENT FUND

Established to account for the construction and maintenance of general government projects. Financing provided by the General Fund.

STORM DRAIN DEVELOPMENT FUND

Established to account for the construction and maintenance of storm drain projects. A special storm drain fee is imposed on developments to provide financing.



CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
ASSETS					
Cash and investments available for operations	\$3,059,815	\$146,307	\$459,537	\$1,997,534	\$223,458
Receivables:					
Accounts				88,644	
Due from other governments	212,481	66,997			
Interest	5,670	301	626	3,690	415
Loans receivable		3,279,005			
Prepays, materials, supplies and deposits		1,130	25,400	1,813	50
Total Assets	<u>\$3,277,966</u>	<u>\$3,493,740</u>	<u>\$485,563</u>	<u>\$2,091,681</u>	<u>\$223,923</u>
LIABILITIES					
Accounts payable		\$52,514	\$120,015	\$37,151	\$56,333
Accrued payroll		232		3,993	6,432
Unearned revenue			104,608	5,022	
Refundable deposits				19,161	
Total Liabilities		<u>52,746</u>	<u>224,623</u>	<u>65,327</u>	<u>62,765</u>
FUND BALANCE					
Fund Balances:					
Nonspendable		1,130	25,400	1,813	50
Restricted	\$3,277,966	3,439,864	235,540	2,024,541	161,108
Assigned					
Total Fund Balances	<u>3,277,966</u>	<u>3,440,994</u>	<u>260,940</u>	<u>2,026,354</u>	<u>161,158</u>
Total Liabilities and Fund Balances	<u>\$3,277,966</u>	<u>\$3,493,740</u>	<u>\$485,563</u>	<u>\$2,091,681</u>	<u>\$223,923</u>

SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUNDS				
Community Facilities District	Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
\$285,747	\$1,680,138	\$143,331	\$17,094,380	\$12,136,107	\$2,122,897	\$39,349,251
4,680						88,644
534	752	266	31,633	25,421	3,933	284,158
						73,241
						3,279,005
						28,393
<u>\$290,961</u>	<u>\$1,680,890</u>	<u>\$143,597</u>	<u>\$17,126,013</u>	<u>\$12,161,528</u>	<u>\$2,126,830</u>	<u>\$43,102,692</u>
\$40,574			\$244,441	\$485,077	\$9,447	\$1,045,552
14,760			4,487	11,641	56	41,601
						109,630
						19,161
<u>55,334</u>			<u>248,928</u>	<u>496,718</u>	<u>9,503</u>	<u>1,215,944</u>
235,627	\$1,680,890		16,877,085		2,117,327	28,393
		\$143,597		11,664,810		30,049,948
						11,808,407
<u>235,627</u>	<u>1,680,890</u>	<u>143,597</u>	<u>16,877,085</u>	<u>11,664,810</u>	<u>2,117,327</u>	<u>41,886,748</u>
<u>\$290,961</u>	<u>\$1,680,890</u>	<u>\$143,597</u>	<u>\$17,126,013</u>	<u>\$12,161,528</u>	<u>\$2,126,830</u>	<u>\$43,102,692</u>

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Property taxes					
Other taxes				\$454,277	\$310,154
Use of money and property	\$17,496	\$2,064	\$2,356	12,379	1,362
Intergovernmental	2,242,995	370,862	136,025	168,105	
Charges for services				324,674	
Developer contributions					
Other		150		4,750	
Total Revenues	2,260,491	373,076	138,381	964,185	311,516
EXPENDITURES:					
Current:					
General Government		24,999		20,711	
Public Works				558,391	209,556
Engineering and Planning		367,081			
Police			94,579		
Capital outlay			43,940		
Total Expenditures		392,080	138,519	579,102	209,556
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,260,491	(19,004)	(138)	385,083	101,960
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(1,700,000)			(256,917)	(410,000)
Total Other Financing Sources (Uses)	(1,700,000)			(256,917)	(410,000)
Net change in fund balances before special items	560,491	(19,004)	(138)	128,166	(308,040)
Special items					
NET CHANGE IN FUND BALANCES	560,491	(19,004)	(138)	128,166	(308,040)
Fund balances at beginning of year	2,717,475	3,459,998	261,078	1,898,188	469,198
FUND BALANCES AT END OF YEAR	\$3,277,966	\$3,440,994	\$260,940	\$2,026,354	\$161,158

SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUNDS				Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	
\$431,970						\$1,196,401
1,570	\$23,877	\$1,569	\$157,726	\$121,060	\$13,808	355,267
			70,000	79,288		3,067,275
		28				324,702
			1,801,884		647,295	2,449,179
		12,000				16,900
<u>433,540</u>	<u>23,877</u>	<u>13,597</u>	<u>2,029,610</u>	<u>200,348</u>	<u>661,103</u>	<u>7,409,724</u>
5,821	29,366	134,804				215,701
647,377				14,348	15,687	1,445,359
						367,081
						94,579
			1,325,192	3,301,139	102,781	4,773,052
<u>653,198</u>	<u>29,366</u>	<u>134,804</u>	<u>1,325,192</u>	<u>3,315,487</u>	<u>118,468</u>	<u>6,895,772</u>
<u>(219,658)</u>	<u>(5,489)</u>	<u>(121,207)</u>	<u>704,418</u>	<u>(3,115,139)</u>	<u>542,635</u>	<u>513,952</u>
				2,410,000		2,410,000
	(2,216)					(2,369,133)
	(2,216)			2,410,000		40,867
<u>(219,658)</u>	<u>(7,705)</u>	<u>(121,207)</u>	<u>704,418</u>	<u>(705,139)</u>	<u>542,635</u>	<u>554,819</u>
				(1,609,208)		(1,609,208)
<u>(219,658)</u>	<u>(7,705)</u>	<u>(121,207)</u>	<u>704,418</u>	<u>(2,314,347)</u>	<u>542,635</u>	<u>(1,054,389)</u>
<u>455,285</u>	<u>1,688,595</u>	<u>264,804</u>	<u>16,172,667</u>	<u>13,979,157</u>	<u>1,574,692</u>	<u>42,941,137</u>
<u>\$235,627</u>	<u>\$1,680,890</u>	<u>\$143,597</u>	<u>\$16,877,085</u>	<u>\$11,664,810</u>	<u>\$2,117,327</u>	<u>\$41,886,748</u>

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	\$13,000	\$17,496	\$4,496		\$2,064	\$2,064
Intergovernmental	2,079,000	2,242,995	163,995	\$393,000	370,862	(22,138)
Charges for services						
Other					150	150
Total Revenues	2,092,000	2,260,491	168,491	393,000	373,076	(19,924)
EXPENDITURES						
Current:						
General Government:						
Finance				12,000	11,656	344
Non-departmental				31,000	13,343	17,657
Public Works						
Planning and Neighborhood Services				577,716	508,432	69,284
Police						
Total Expenditures				620,716	533,431	87,285
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,092,000	2,260,491	168,491	(227,716)	(160,355)	67,361
OTHER FINANCING SOURCES (USES)						
Transfers (out)	(1,700,000)	(1,700,000)				
Total Other Financing Sources (Uses)	(1,700,000)	(1,700,000)				
NET CHANGE IN FUND BALANCES	\$392,000	560,491	\$168,491	(\$227,716)	(160,355)	\$67,361
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					141,351	
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		2,717,475			3,459,998	
Fund balances at end of year		\$3,277,966			\$3,440,994	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			\$410,000	\$454,277	\$44,277	\$323,000	\$310,154	(\$12,846)
\$3,000	\$2,356	(\$644)	9,000	12,379	3,379	1,000	1,362	362
104,827	136,025	31,198	121,978	168,105	46,127			
			310,000	324,674	14,674			
				4,750	4,750			
107,827	138,381	30,554	850,978	964,185	113,207	324,000	311,516	(12,484)
			28,000	20,711	7,289			
			628,622	563,841	64,781	318,174	209,556	108,618
210,029	170,779	39,250						
210,029	170,779	39,250	656,622	584,552	72,070	318,174	209,556	108,618
(102,202)	(32,398)	69,804	194,356	379,633	185,277	5,826	101,960	96,134
			(256,917)	(256,917)		(410,000)	(410,000)	
			(256,917)	(256,917)		(410,000)	(410,000)	
(\$102,202)	(32,398)	\$69,804	(\$62,561)	122,716	\$185,277	(\$404,174)	(308,040)	\$96,134
	(43,940)							
	76,200			5,450				
	261,078			1,898,188			469,198	
	\$260,940			\$2,026,354			\$161,158	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	\$400,000	\$431,970	\$31,970			
Use of money and property	2,000	1,570	(430)	\$34,000	\$23,877	(\$10,123)
Intergovernmental						
Charges for services						
Other						
Total Revenues	402,000	433,540	31,540	34,000	23,877	(10,123)
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	5,000	5,821	(821)	30,000	29,366	634
Public Works	745,567	647,377	98,190			
Planning and Neighborhood Services						
Police						
Total Expenditures	750,567	653,198	97,369	30,000	29,366	634
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(348,567)	(219,658)	128,909	4,000	(5,489)	(9,489)
OTHER FINANCING SOURCES (USES)						
Transfers (out)				(2,216)	(2,216)	
Total Other Financing Sources (Uses)				(2,216)	(2,216)	
NET CHANGE IN FUND BALANCES	<u>(\$348,567)</u>	<u>(219,658)</u>	<u>\$128,909</u>	<u>\$1,784</u>	<u>(7,705)</u>	<u>(\$9,489)</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		455,285			1,688,595	
Fund balances at end of year		<u>\$235,627</u>			<u>\$1,680,890</u>	

PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			\$1,133,000	\$1,196,401	\$63,401
\$2,000	\$1,569	(\$431)	64,000	62,673	(1,327)
	28	28	2,698,805	2,917,987	219,182
	12,000	12,000	310,000	324,702	14,702
				16,900	16,900
2,000	13,597	11,597	4,205,805	4,518,663	312,858
			12,000	11,656	344
136,270	134,804	1,466	230,270	204,045	26,225
			1,692,363	1,420,774	271,589
			577,716	508,432	69,284
			210,029	170,779	39,250
136,270	134,804	1,466	2,722,378	2,315,686	406,692
(134,270)	(121,207)	13,063	1,483,427	2,202,977	719,550
			(2,369,133)	(2,369,133)	
			(2,369,133)	(2,369,133)	
(\$134,270)	(121,207)	\$13,063	(\$885,706)	(166,156)	\$719,550
				141,351	
				(43,940)	
				81,650	
	264,804			11,214,621	
	\$143,597			\$11,227,526	



AGENCY FUNDS

Financial reporting standards require that Agency Funds be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, government entities, and non-public organizations. These funds include the following:

EMPLOYEE BENEFITS FUND

Established to account for specific negotiated employee benefits.

SENIOR ADVISORY COMMISSION FUND

Established to account for the fund raising activities of the Commission.

LOCAL IMPROVEMENT DISTRICT (LID) FUNDS

Established to account for debt service reserves of Local Improvement Districts (LIDs) for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LIDs.

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,988,780	\$12,484	\$233,483	\$1,767,781
Receivables:				
Interest	3,008	3,374	3,008	3,374
Total Assets	<u>\$1,991,788</u>	<u>\$15,858</u>	<u>\$236,491</u>	<u>\$1,771,155</u>
<u>Liabilities</u>				
Refundable deposits	\$1,991,788	\$15,858	\$236,491	\$1,771,155
Total Liabilities	<u>\$1,991,788</u>	<u>\$15,858</u>	<u>\$236,491</u>	<u>\$1,771,155</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$8,959	\$1,958	\$1,687	\$9,230
Receivables:				
Interest	13	17	13	17
Total Assets	<u>\$8,972</u>	<u>\$1,975</u>	<u>\$1,700</u>	<u>\$9,247</u>
<u>Liabilities</u>				
Refundable deposits	\$8,972	\$1,975	\$1,700	\$9,247
Total Liabilities	<u>\$8,972</u>	<u>\$1,975</u>	<u>\$1,700</u>	<u>\$9,247</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,196,150	\$1,077,614	\$1,406,934	\$866,830
Cash and investments held by trustees	1,231,896	101		1,231,997
Receivable:				
Interest	1,793	1,605	1,793	1,605
Total Assets	<u>\$2,429,839</u>	<u>\$1,079,320</u>	<u>\$1,408,727</u>	<u>\$2,100,432</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	\$2,429,839	\$1,079,320	\$1,408,727	\$2,100,432
Total Liabilities	<u>\$2,429,839</u>	<u>\$1,079,320</u>	<u>\$1,408,727</u>	<u>\$2,100,432</u>

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<hr/> <u>LID #20</u> <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,287,012	\$1,427,603	\$1,390,791	\$1,323,824
Cash and investments held by trustees	1,217,948	103		1,218,051
Receivables:				
Interest	1,928	2,453	1,928	2,453
Total Assets	<u>\$2,506,888</u>	<u>\$1,430,159</u>	<u>\$1,392,719</u>	<u>\$2,544,328</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,506,888</u>	<u>\$1,430,159</u>	<u>\$1,392,719</u>	<u>\$2,544,328</u>
Total Liabilities	<u>\$2,506,888</u>	<u>\$1,430,159</u>	<u>\$1,392,719</u>	<u>\$2,544,328</u>
<hr/> <u>TOTAL AGENCY FUNDS</u> <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$4,480,901	\$2,519,659	\$3,032,895	\$3,967,665
Cash and investments held by trustees	2,449,844	204		2,450,048
Receivables:				
Interest	6,742	7,449	6,742	7,449
Total Assets	<u>\$6,937,487</u>	<u>\$2,527,312</u>	<u>\$3,039,637</u>	<u>\$6,425,162</u>
<u>Liabilities</u>				
Refundable deposits	\$2,000,760	\$17,833	\$238,191	\$1,780,402
Due to Local Improvement Districts	4,936,727	2,509,479	2,801,446	4,644,760
Total Liabilities	<u>\$6,937,487</u>	<u>\$2,527,312</u>	<u>\$3,039,637</u>	<u>\$6,425,162</u>

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

- Net Position – Schedule 1
- Changes in Net Position – Schedule 2
- Fund Balances, Governmental Funds – Schedule 3
- Changes in Fund Balance, Governmental Funds – Schedule 4

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

- Assessed Value and Actual Value of Taxable Property – Schedule 5
- Direct and Overlapping Property Taxes Rates – Schedule 6
- Principal Property Taxpayers – Schedule 7
- Property Tax Levies and Collections – Schedule 8
- Taxable Sales by Category – Schedule 9
- Direct and Overlapping Sales Tax Rates – Schedule 10
- Principal Sales Tax Payers – Schedule 11

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratios of Outstanding Debt by Type – Schedule 12
- Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds – Schedule 13
- Computation of Direct and Overlapping Debt – Schedule 14
- Legal Debt Margin Information – Schedule 15
- Installment Payment Coverage, Sewer Certificates of Participation – Schedule 16

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Bimonthly Sewer Rates by Customer Class – Schedule 17
- Demographic and Economic Statistics – Schedule 18
- Principal Employers – Schedule 19

Operating Information

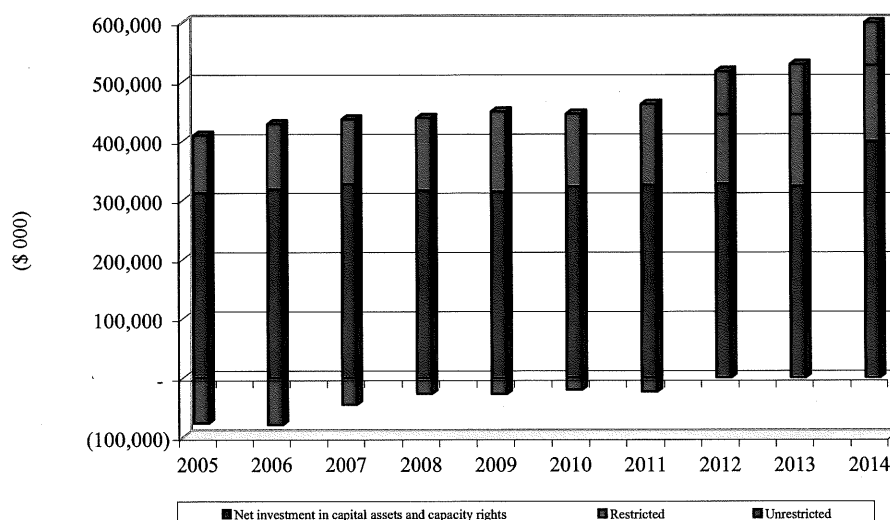
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
- Operating Indicators by Function/Program – Schedule 21
- Capital Asset Statistics by Function/Program – Schedule 22

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

City of Milpitas
NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)
(Dollars in Thousands)



Fiscal Year Ended June 30					
	2005	2006	2007	2008	2009
Governmental activities					
Net investment in capital assets and capacity rights	\$225,140	\$224,223	\$232,841	\$224,603	\$221,744
Restricted	89,652	97,069	92,504	104,161	110,463
Unrestricted	(97,657)	(92,209)	(62,097)	(50,764)	(41,574)
Total governmental activities net position	\$217,135	\$229,083	\$263,248	\$278,000	\$290,633
Business-type activities					
Net investment in capital assets and capacity rights	\$88,191	\$94,467 (a)	\$95,300	\$92,028	\$92,576
Restricted	6,774	12,852	16,179	18,252	24,911
Unrestricted	21,125	12,980	16,652	23,603	14,172
Total business-type activities net position	\$116,090	\$120,299	\$128,131	\$133,883	\$131,659
Primary government					
Net investment in capital assets and capacity rights	\$313,331	\$318,690	\$328,141	\$316,631	\$314,320
Restricted	96,426	109,921	108,683	122,413	135,374
Unrestricted	(76,532)	(79,229)	(45,445)	(27,161)	(27,402)
Total primary government net position	\$333,225	\$349,382	\$391,379	\$411,883	\$422,292

Fiscal Year Ended June 30					
	2010	2011	2012	2013 (b)	2014
Governmental activities					
Net investment in capital assets and capacity rights	\$218,878	\$218,116	\$219,034	\$217,002	\$291,704
Restricted	98,426	115,474	90,878	88,147	90,758
Unrestricted	(38,500)	(44,592)	53,417	64,876	51,315
Total governmental activities net position	\$278,804	\$288,998	\$363,329	\$370,025	\$433,777
Business-type activities					
Net investment in capital assets and capacity rights	\$104,370	\$107,707	\$109,146	\$106,489	\$107,816
Restricted	24,059	20,743	25,239	32,889	37,254
Unrestricted	17,851	20,577	19,838	19,799	20,880
Total business-type activities net position	\$146,280	\$149,027	\$154,223	\$159,177	\$165,950
Primary government					
Net investment in capital assets and capacity rights	\$323,248	\$325,823	\$328,180	\$323,491	\$399,520
Restricted	122,485	136,217	116,117	121,036	128,012
Unrestricted	(20,649)	(24,015)	73,255	84,675	72,195
Total primary government net position	\$425,084	\$438,025	\$517,552	\$529,202	\$599,727

(a) The City restated the balance of capacity rights to remove improvements that did not add to the City's rights.

(b) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

CITY OF MILPITAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30			
	2005	2006	2007	2008
Expenses				
Governmental activities				
General Government	\$17,412	\$18,651	\$16,297	\$18,130
Building and Safety	2,048	2,195	2,334	2,626
Public Works	17,794	17,156	20,647	20,745
Planning and Neighborhood Services	7,116	7,453	2,396	3,239
Parks and Recreation	4,170	4,266	7,301	6,527
Police	18,773	20,473	21,452	22,440
Fire	14,448	14,381	14,329	15,411
Payment under developer agreements		9,384		
Interest on Long Term Debt	9,338		9,419	11,534
Total governmental activities expenses	91,099	93,959	94,175	100,652
Business-type activities				
Water Utility	9,668	9,837	10,673	11,567
Recycled Water Utility	247	328	337	481
Sewer Utility	6,040	7,047	8,210	8,626
Total business-type activities expenses	15,955	17,212	19,220	20,674
Total primary government expenses:	\$107,054	\$111,171	\$113,395	\$121,326
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	\$906	\$580	\$662	\$996
Building and Safety	2,899	5,800	5,029	4,194
Public Works	311	344	2,817	2,410
Planning and Neighborhood Services	1,678	2,412	436	459
Parks and Recreation	1,482	1,496	1,599	1,663
Police	1,693	1,132	1,406	1,351
Fire	305	1,070	1,109	1,144
Operating grants and contributions	3,780	4,089	4,600	4,617
Capital grants and contributions	12,012	12,971	16,056	15,242
Total government activities program revenues	25,066	29,894	33,714	32,076
Business-type activities				
Charges for services:				
Water Utility	12,430	13,224	14,523	14,937
Recycled Water Utility	1,017	1,086	1,203	1,323
Sewer Utility	8,253	8,966	9,833	10,041
Operating grants and contributions				
Capital grants and contributions	604	3,854	2,418	956
Total business-type activities program revenue	22,304	27,130	27,977	27,257
Total primary government program revenues:	\$47,370	\$57,024	\$61,691	\$59,333
Net (Expense)/Revenue				
Governmental activities	(\$66,033)	(\$64,065)	(\$60,461)	(\$68,576)
Business-type activities	6,349	9,918	8,757	6,583
Total primary government net expense:	(\$59,684)	(\$54,147)	(\$51,704)	(\$61,993)

- (a) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.
- (b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) The Redevelopment Agency was dissolved as of January 31, 2012.
- (d) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (e) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (f) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.

2009	2010	2011	2012	2013 (d)	2014
\$18,184	\$33,535 (b)	\$21,474 (b)	\$17,418 (c)	\$15,329	\$21,074
2,401	1,972	1,984	2,029	2,293	2,684
19,605	22,843	16,777	21,787	17,700 (e)	18,664
3,249	2,874	2,155	2,144	2,553	2,119
6,518	6,096	6,529	5,823	3,107 (e)	3,012
22,514	22,771	22,661	22,620	21,702	23,373
15,260	14,748	15,085	14,904	15,810	15,159
9,402	9,570	9,536	2,050	227	240
97,133	114,409	96,201	88,775	78,721	86,325
12,545	11,788	12,766	15,229	17,195	17,369
576	476	470	599	(f)	(f)
12,312	8,730	9,240	8,399	9,418	11,008
25,433	20,994	22,476	24,227	26,613	28,377
\$122,566	\$135,403	\$118,677	\$113,002	\$105,334	\$114,702
\$956	\$1,165	\$1,071	\$1,349	\$1,700	\$1,819
2,897	2,031	2,823	3,436	4,554	6,445
1,996	2,571	1,826	2,440	2,668	2,472
358	182	139	237	301	432
1,655	1,642	1,662	1,833	1,987	1,958
1,425	1,091	1,263	1,134	1,051	1,091
1,108	1,137	1,210	1,292	1,508	2,120
4,920	3,892	4,869	6,146	7,487	6,195
9,801	8,840	5,704	8,294	8,286	15,483
25,116	22,551	20,567	26,161	29,542	38,015
13,873	14,051	15,201	16,773	19,801	21,354
1,288	1,260	1,300	1,447	(f)	(f)
9,849	10,393	11,406	12,445	12,632	12,753
	79	70	43	111	57
471	6,406	163	1,629	1,975	1,402
25,481	32,189	28,140	32,337	34,519	35,566
\$50,597	\$54,740	\$48,707	\$58,498	\$64,061	\$73,581
(\$72,017)	(\$91,858)	(\$75,634)	(\$62,614)	(\$49,179)	(\$48,310)
48	11,195	5,664	8,110	7,906	7,189
(\$71,969)	(\$80,663)	(\$69,970)	(\$54,504)	(\$41,273)	(\$41,121)

(Continued)

CITY OF MILPITAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

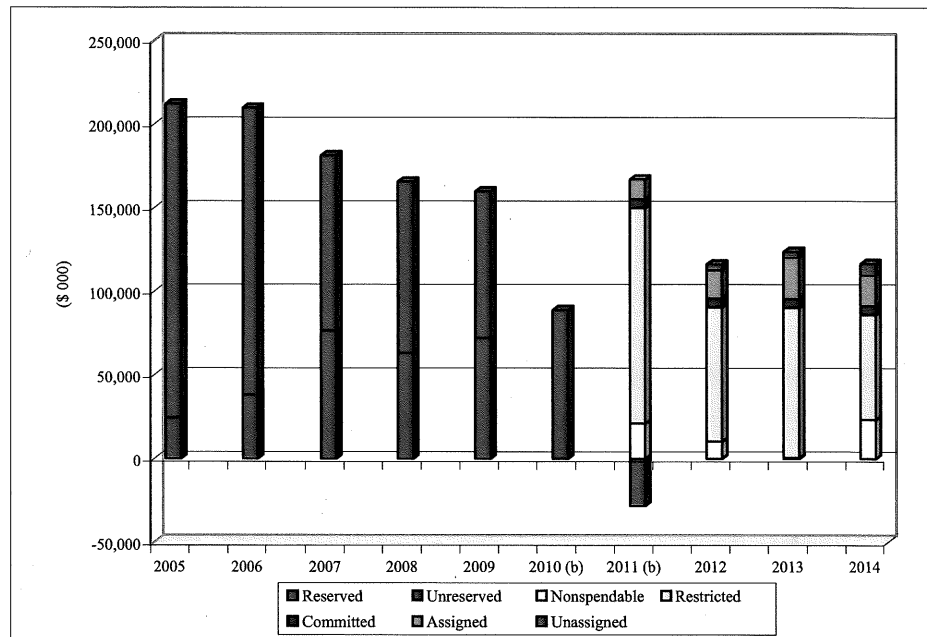
	Fiscal Year Ended June 30			
	2005	2006	2007	2008
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	\$38,913	\$44,026	\$44,565	\$49,061
Less: Educational Revenue Augmentation				
Fund payment	(2,993)	(2,422)		
Sales and use taxes	13,816	15,613	16,765	15,551
Hotel/Motel taxes	4,986	5,669	6,427	7,195
Other taxes	132	133	125	602
Franchise fees	2,772	2,643	2,912	2,968
Motor vehicle in lieu	421	1,548	357	296
Investment earnings	1,069	1,302	2,225	4,100
Gain on sale of capital assets/property		12	18,257	34
Miscellaneous	332	856	355	109
Redevelopment expense	(102,281) (a)			
Transfers	4,294	6,633	2,638	3,411
Extraordinary item				
Special Item				
Total government activities	<u>(38,539)</u>	<u>76,013</u>	<u>94,626</u>	<u>83,327</u>
Business-type activities				
Investment earnings	627	924	1,714	2,580
Transfers	(4,294)	(6,633)	(2,638)	(3,411)
Total business-type activities	<u>(3,667)</u>	<u>(5,709)</u>	<u>(924)</u>	<u>(831)</u>
Total primary government	<u><u>(\$42,206)</u></u>	<u><u>\$70,304</u></u>	<u><u>\$93,702</u></u>	<u><u>\$82,496</u></u>
Change in net position				
Governmental activities	(\$104,572)	\$11,948	\$34,165	\$14,751
Business-type activities	2,682	4,209	7,833	5,752
Total primary government	<u><u>(\$101,890)</u></u>	<u><u>\$16,157</u></u>	<u><u>\$41,998</u></u>	<u><u>\$20,503</u></u>

- (a) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.
- (b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) The Redevelopment Agency was dissolved as of January 31, 2012.
- (d) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (e) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (f) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (g) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

2009	2010	2011	2012	2013 (d)	2014
\$53,917	\$58,012 (b)	\$55,655 (b)	\$34,029	\$20,469	\$27,607
15,670	14,725	16,429	18,758	20,196	19,014
5,550	5,297	6,124	7,068	7,933	9,336
416	407	380	491	516	672
3,151	2,993	3,083	3,218	3,270	3,453
237	209	323	35	37	31
1,553	700	399	1,093	260	844
35	171			46	
92	85	62	67	103	200
4,029	(2,570)	3,374	3,304	3,045	3,402
			68,882 (c)		
					49,799 (g)
<u>84,650</u>	<u>80,029</u>	<u>85,829</u>	<u>136,945</u>	<u>55,875</u>	<u>114,358</u>
1,756	857	455	390	94	690
<u>(4,029)</u>	<u>2,570</u>	<u>(3,374)</u>	<u>(3,304)</u>	<u>(3,045)</u>	<u>(3,402)</u>
<u>(2,273)</u>	<u>3,427</u>	<u>(2,919)</u>	<u>(2,914)</u>	<u>(2,951)</u>	<u>(2,712)</u>
<u>\$82,377</u>	<u>\$83,456</u>	<u>\$82,910</u>	<u>\$134,031</u>	<u>\$52,924</u>	<u>\$111,646</u>
\$12,633	(\$11,829)	\$10,195	\$74,331	\$6,696	\$66,048
<u>(2,225)</u>	<u>14,622</u>	<u>2,745</u>	<u>5,196</u>	<u>4,955</u>	<u>4,477</u>
<u>\$10,408</u>	<u>\$2,793</u>	<u>\$12,940</u>	<u>\$79,527</u>	<u>\$11,651</u>	<u>\$70,525</u>



CITY OF MILPITAS
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010 (b)	2011 (b)	2012	2013	2014
General Fund										
Reserved	\$1,344	\$1,315	\$21,753	\$21,749	\$21,542					
Unreserved	26,699	27,966	26,716	29,359	29,293					
Nonspendable						\$20,977	\$20,970	\$577	\$468	\$23,279
Restricted							24,555			
Committed						5,433	5,433	5,433	5,433	5,433
Assigned						9,465	9,698	13,904	10,434	6,658
Unassigned						14,920	15,448	15,800	16,444	13,521
Total General Fund	\$28,043	\$29,281	\$48,469	\$51,108	\$50,835	\$50,795	\$76,104	\$35,714	\$32,779	\$48,891
All Other Governmental Funds										
Reserved	\$23,049	\$36,812	\$54,763	\$41,416	\$50,608					
Unreserved, reported in:										
Special revenue funds	23,745	3,524	4,025	4,213	4,603					
Capital project funds	137,415	140,259	74,178	69,028	53,845					
Debt service funds										
Nonspendable						\$115	\$23	\$9,788	\$11	\$32
Restricted						96,873	104,290	80,112	89,821	62,661
Assigned						2,196	2,127	2,892	14,244	11,808
Unassigned						(10,219)	(43,624)	(12,234)	(12,955)	(6,610)
Total all other governmental funds	\$184,209	\$180,595	\$132,966	\$114,657	\$109,056	\$88,965	\$62,816	\$80,558	\$91,121	\$67,891

- (a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.
- (b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011, and years prior to 2010 have not been restated to conform with the new presentation.

CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2005	2006	2007	2008	2009
Revenues					
Property taxes	\$38,337	\$43,155	\$44,289	\$49,060	\$53,917
Less: Educational Revenue					
Augmentation Fund payment	(2,993)	(2,422)			
Sales taxes	14,409	16,228	17,383	16,173	16,251
Other taxes	9,066	10,003	10,508	11,636	9,937
Licenses and fines	4,328	7,357	6,958	5,991	4,619
Use of money and property	6,149	6,260	8,292	11,096	8,984
Intergovernmental	4,914	6,045	5,589	4,092	6,004
Charges for services	3,842	4,165	4,715	4,612	4,146
Developer contributions	1,439	5,010	1,217	2,884	2,558
Other	4,097	1,186	8,978	584	816
Total Revenues	83,588	96,987	107,929	106,128	107,232
Expenditures					
Current:					
General government	13,026	15,608	34,136	15,079	17,834
Building and safety	2,075	2,226	2,232	2,566	2,420
Human resources and recreation					
Public works	7,736	7,789	10,646 (b)	11,016	10,066
Engineering and planning	6,444	6,581	(b)		
Planning and neighborhood services			2,329 (b)	2,528	2,576
Recreation	4,199	4,284	(b)		
Parks and recreation			6,486 (b)	6,513	6,416
Police	19,723	20,167	20,081	21,701	21,602
Fire	15,363	14,312	13,717	14,664	15,279
Supplemental educational revenue					
augmentation fund payment					
Capital outlay	15,998	16,861	46,076	33,133	21,585
Payments under developer agreements					
Debt service:					
Principal	6,605	8,559	8,508	8,490	8,481
Interest and fees	9,379	9,424	15,250	11,528	11,516
Total Expenditures	100,548	105,811	159,461	127,218	117,775
Excess (deficiency) of revenues over (under) expenditures	(16,960)	(8,824)	(51,532)	(21,090)	(10,543)
Other Financing Sources (Uses)					
Proceeds from debt issuance			20,455		
Bond issuance premium					
Payments to refunded debt escrow agent					
Proceeds from sale of properties				1,868	14
Loss from sale of property					
Transfers in	23,095	28,523	22,561	20,420	23,278
Transfers (out)	(18,801)	(22,075)	(19,924)	(16,869)	(18,624)
Total other financing sources (uses)	4,294	6,448	23,092	5,419	4,668
Extraordinary Items					
Assets transferred to Housing Successor					
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor					
Special Item					
Redevelopment expense	(48,000) (a)				
Assets transferred to/from Successor Agency and County					
Net Change in fund balances	(\$60,666)	(\$2,376)	(\$28,440)	(\$15,671)	(\$5,875)
Debt service as a percentage of noncapital expenditures	18.9%	20.2%	26.5%	21.3%	20.8%

(a) In 2005, the Redevelopment Agency made a cash payment of \$48,000 K to the County of Santa Clara for two parcels of land.

(b) The City departments were reorganized in fiscal 2007.

(c) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.

Years prior to 2010 have not been restated to reflect this change in presentation.

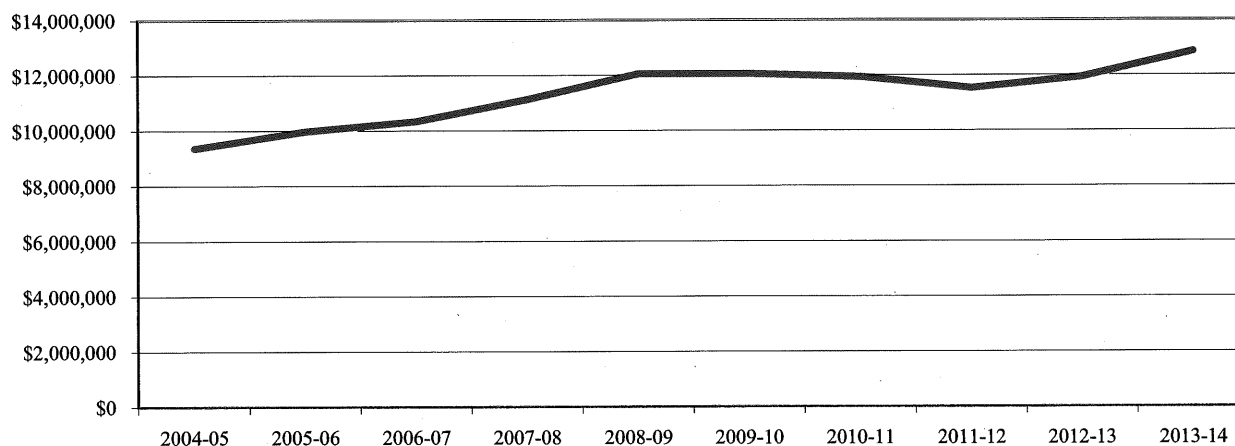
(d) The Redevelopment Agency was dissolved as of January 31, 2012.

(e) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department.

(f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

Fiscal Year Ended June 30				
2010	2011	2012	2013	2014
\$58,012 (c)	\$55,655 (c)	\$34,029 (d)	\$20,466	\$27,608
15,268	16,994	19,403	20,908	19,766
9,495	10,917	12,230	13,343	14,992
3,481	4,309	4,956	5,875	8,193
7,168	3,948	5,303	1,538	2,964
6,362	5,082	4,834	5,842	5,216
3,704	4,020	4,725	5,550	5,735
4,739	3,360	7,549	7,987	13,975
933	1,039	578	715	1,144
109,162	105,324	93,607	82,224	99,593
20,602 (c)	19,003 (c)	12,753 (d)	11,871	13,204
1,992	1,975	2,060	2,278	2,658
13,619	7,960	8,772	3,087 (e)	3,124
			9,124	8,535
2,180	2,267	2,196	2,030	2,202
6,052	5,688	5,261	(e)	(e)
22,071	21,682	21,733	20,978	22,165
14,249	14,994	14,562	15,420	14,587
11,774	2,424			
16,938	12,940	28,876	7,510	10,035
8,169	8,225	13,153	4,209	3,828
11,982	12,386	6,823	668	223
129,628	109,544	116,189	77,175	80,561
(20,466)	(4,220)	(22,582)	5,049	19,032
		21,780		
4	5	8	46	6
23,590	119,213	34,994	(512)	7,499
(23,259)	(115,839)	(31,690)	13,780	(4,098)
335	3,379	25,092	(10,735)	
			2,579	3,407
		17,274 (d)		
		(42,431) (d)		
				(27,261) (f)
(\$20,131)	(\$841)	(\$22,647)	\$7,628	(\$4,822)
17.9%	18.5%	22.9%	7.0%	5.7%

CITY OF MILPITAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollars in Thousands)



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other				
2004-05	\$4,572,065	\$798,350	\$2,095,928	\$603,547	\$1,379,444	(\$110,377)	\$9,338,957	1%
2005-06	4,952,629	814,287	2,032,245	641,662	1,651,527	(131,810)	9,960,540	1%
2006-07	5,513,377	1,141,925	2,179,658	328,782	1,284,778	(129,187)	10,319,333	1%
2007-08	5,974,338	1,208,674	2,423,285	320,499	1,329,060	(146,495)	11,109,361	1%
2008-09	6,345,176	1,350,579	2,806,181	307,980	1,437,414	(220,624)	12,026,706	1%
2009-10	6,199,167	1,368,086	2,904,523	352,408	1,446,827	(245,778)	12,025,233	1%
2010-11	6,169,631	1,347,861	2,772,798	346,493	1,557,639	(282,326)	11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	327,933	1,415,065	(282,633)	11,498,357	1%
2012-13	6,291,949	1,348,591	2,507,227	355,453	1,706,657	(309,165)	11,900,712	1%
2013-14	6,793,845	1,388,236	2,622,328	405,531	1,764,760	(161,341)	12,813,359	1%

Source: Hdl Coren & Cone, Santa Clara County Assessor Combined Tax Rolls

Notes:

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

CITY OF MILPITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Rate per \$100 of assessed value)

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
2004-05	\$1.00	\$1.00	\$0.0412	\$0.0624	\$0.0092
2005-06	1.00	1.00	0.0412	0.0509	0.0078
2006-07	1.00	1.00	0.0412	0.0518	0.0072
2007-08	1.00	1.00	0.0412	0.0874	0.0071
2008-09	1.00	1.00	0.0412	0.0874	0.0061
2009-10	1.00	1.00	0.0412	0.1238	0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072
2011-12	1.00	1.00	0.0412	0.1490	0.0064
2012-13	1.00	1.00	0.0412	0.1140	0.0069
2013-14	1.00	1.00	0.0412	0.0961	0.0070

Source: County of Santa Clara, Tax Rates & Information

Notes:

- (a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
- (b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS
 PRINCIPAL PROPERTY TAX PAYERS
 FISCAL YEARS 2013-14 and 2004-05
 (Dollars in thousands)

Taxpayer	2013-2014			2004-2005		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Technology Inc.	\$ 987,389,413	1	7.71%	\$197,220,880	2	2.11%
Milpitas Mills LP	302,422,174	2	2.36%	274,123,789	1	2.94%
KLA Tencor Corporation	249,599,168	3	1.95%	170,942,454	4	1.83%
California Diversified	153,500,000	4	1.20%			
Linear Technology Corporation	132,393,688	5	1.03%	82,333,263	10	0.88%
BRE Milpitas LLC	121,141,738	6	0.95%			
Headway Technologies Inc.	114,307,730	7	0.89%	124,853,141	6	1.34%
Silicon Valley California LLC	106,048,587	8	0.83%			
Sandbox Expansion LLC	89,250,000	9	0.70%			
Fairfield Murphy RD LLC	83,610,070	10	0.65%			
Richard T. Peery Trustee				188,618,732	3	2.02%
Lifescan Inc				103,660,117	7	1.11%
Solelectron Corporation				101,868,420	8	1.09%
Seagate Technology				141,802,084	5	1.52%
Trinet Milpitas Associates				92,399,615	9	0.99%
Subtotal	<u>\$ 2,339,662,568</u>		<u>18.26%</u>	<u>\$ 1,477,822,495</u>		<u>15.82%</u>
Fiscal Year 2013-2014 Total Net Assessed Valuation			\$12,813,359,000			
Fiscal Year 2004-2005 Total Net Assessed Valuation			\$9,338,957,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2013/14 Combined Tax Rolls

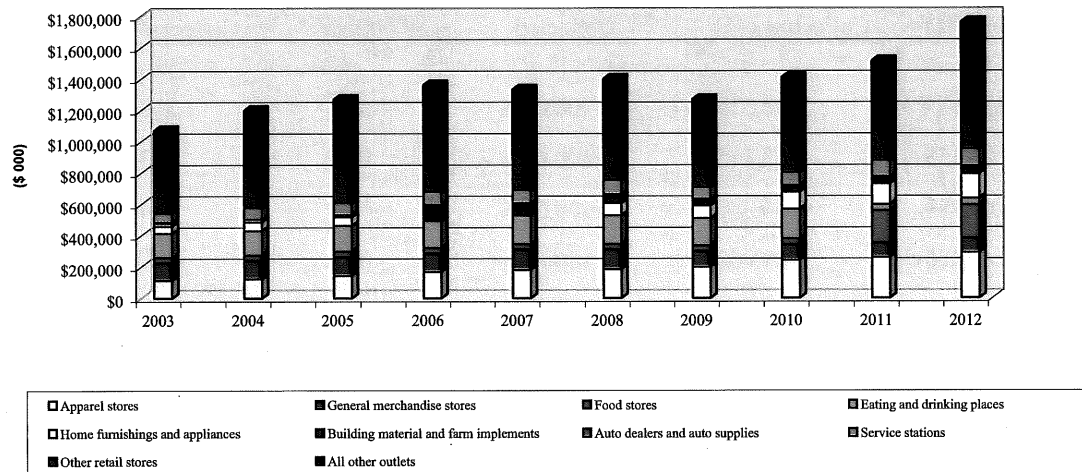
CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied (a)</u>	<u>Current Collections (a)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Taxes Collected (a)</u>	<u>Percent of Levy</u>
2004-05	\$38,337	\$38,337	100.00%	0	\$38,337	100.00%
2005-06	43,155	43,155	100.00%	0	43,155	100.00%
2006-07	44,289	44,289	100.00%	0	44,289	100.00%
2007-08	49,060	49,060	100.00%	0	49,060	100.00%
2008-09	53,917	53,917	100.00%	0	53,917	100.00%
2009-10 (b)	58,012	58,012	100.00%	0	58,012	100.00%
2010-11 (b)	55,655	55,655	100.00%	0	55,655	100.00%
2011-12 (c)	34,029	34,029	100.00%	0	34,029	100.00%
2012-13 (c)	20,469	20,469	100.00%	0	20,469	100.00%
2013-14	27,608	27,608	100.00%	0	27,608	100.00%

- (a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.
- (b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) The Redevelopment Agency was dissolved effective January 31, 2012 and collections of property tax increment ceased as of that date. Subsequent to that date, a Successor Agency collects property taxes of the former Redevelopment Agency.

Source: City of Milpitas Comprehensive Financial Annual Report

**CITY OF MILPITAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(Dollars in Thousands)**



	CALENDAR YEARS									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Apparel stores	\$114,599	\$123,583	\$145,317	\$168,985	\$181,878	\$185,023	\$200,140	\$241,992	\$261,414	\$291,268
General merchandise stores	113,574	119,471	120,297	118,348	131,594	130,193	101,561	100,790	94,828	92,652
Food stores	33,765	32,950	33,592	34,979	34,362	31,105	34,453	38,004	203,411	214,065
Eating and drinking places	152,736	156,318	164,694	173,424	181,668	183,049	174,016	187,002	39,344	40,725
Home furnishings and appliances	45,497	54,460	54,906	(a)	(a)	77,669	80,746	108,491	130,572	155,616
Building material and farm implements	(a)	(a)	(a)	91,571	79,360	57,594	44,818	45,501	48,131	51,128
Auto dealers and auto supplies	25,558	19,990	15,132	12,221	(a)	(a)	(a)	(a)	(a)	(a)
Service stations	58,491	71,231	76,455	82,868	85,468	93,324	73,280	83,100	102,231	108,073
Other retail stores	227,373	251,599	255,805	220,862	266,915	225,954	158,982	204,074	215,350	250,826
All other outlets	301,404	370,253	405,111	460,265	373,394	417,099	402,516	401,569	420,024	558,935
Total	\$1,072,997	\$1,199,855	\$1,271,309	\$1,363,523	\$1,334,639	\$1,401,010	\$1,270,512	\$1,410,523	\$1,515,305	\$1,763,288
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

(a) Sales omitted because their publication would result in the disclosure of confidential information.
The numbers are included with "Other retail stores".

Source: California State Board of Equalization

CITY OF MILPITAS
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rate	Santa Clara County	State of California	
2004-05	1.00	1.00	6.25	(a)
2005-06	1.00	1.00	6.25	
2006-07	1.00	1.00	6.25	
2007-08	1.00	1.00	6.25	
2008-09	1.00	1.00	7.25	(b)
2009-10	1.00	1.00	7.25	
2010-11	1.00	1.00	7.25	
2011-12	1.00	1.00	6.25	(c)
2012-13	1.00	1.25 (d)	6.50	(e)
2013-14	1.00	1.25	6.50	

Source: California State Board of Equalization

(a) July 1, 2004 the State increased the State Rate .25%

(b) April 1, 2009 the State increased the State Rate 1%

(c) July 1, 2011 the State decreased the State Rate 1%

(d) April 1, 2013 the County increased the rate 0.25%

(e) On both July 1, 2012 and April 1, 2013 the State increased the State Rate 0.125%

Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS
 PRINCIPAL SALES TAX PAYERS
 CALENDAR YEARS 2013 and 2003
 IN ALPHABETICAL ORDER

2013	2003
Best Buy Stores	Arco AM/PM Mini Marts
Burlington Coast Factory	Bay Tool & Supply
Chevron Service Stations	Best Buy Stores
Cisco System Inc	Chevron Service Stations
Coach Stores	Dave & Busters
Dave & Busters	FEI Company
Flextronics	Hanson Concrete Products
Headway Technologies	Headway Technologies
Home Depot	Home Depot
KLA Tencor Corporation	KLA Tencor Corporation
Kohl's Department Stores	Life Scan
Leotek Electronics USA	Marshall's Department Stores
Marshall's Department Stores	Mazak Corporation
Mazak Corporation	McDonald's Restaurant
Milpitas Materials Company	Mervyn's Department Stores
Nanometrics	Milpitas Materials Company
Nike Factory Store	Nanometrics
One Workplace	OHKA America
Piercey Toyota & Scion	One Workplace L. Ferrari
Pivot Interiors	Orchard Supply Hardware
Shell Service Stations	Saks Fifth Avenue
South Bay Honda	Shell Services Stations
Tesoro Service Stations	Union 76 Service Stations
The Gap	Walgreen's Drug Stores
Wal-Mart Stores	WalMart Stores

Source: MBIA MuniServices Company

CITY OF MILPITAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Dollars in thousands, except per capita)

Fiscal Year	Governmental Activities					Business-type Activities	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation			
2004-05	\$4,630	\$194,440	\$54,281	\$0	\$0	\$0	\$253,351	7.95%	\$3,898
2005-06	3,540	190,780	50,471	0	0	0	244,791	7.50%	3,750
2006-07	2,410	187,030	46,843	0	0	9,535	245,818	6.71%	3,693
2007-08	1,230	183,175	43,388	0	0	9,160	236,953	5.79%	3,413
2008-09	0	179,215	40,097	0	0	8,815	228,127	5.46%	3,221
2009-10	0	174,180	36,963	0	0	8,460	219,603	5.29%	3,069
2010-11	0	168,940	33,978	0	0	8,090	211,008	5.17%	2,949
2011-12	0	0 (b)	0 (b)	14,037	0	7,710	21,747	0.53%	322
2012-13	0	0	0	9,828	360	7,315	17,503	0.39%	258
2013-14	0	0	0	6,000	274	6,910	13,184	(c)	188

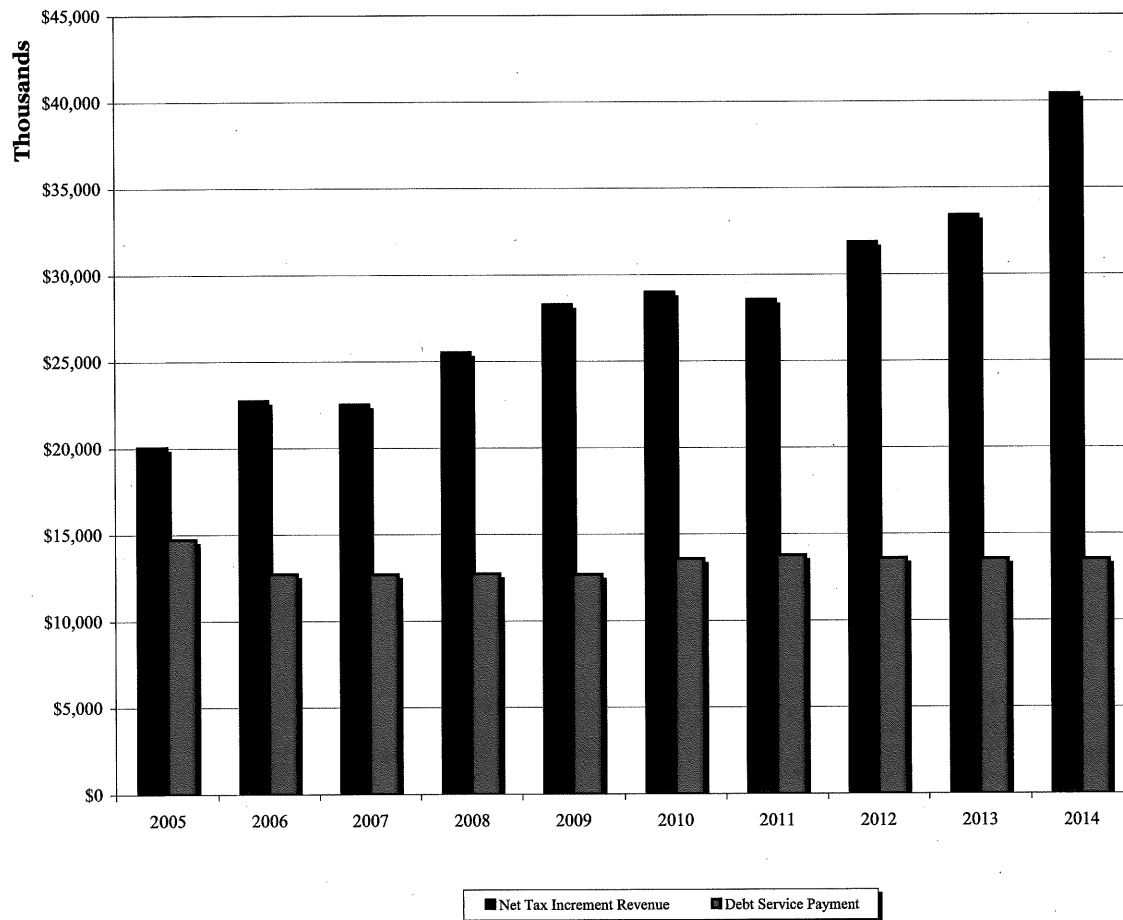
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 18 for personal income and population data.

(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency.

(c) Data for fiscal year 2013-14 not available until May of 2015.

**CITY OF MILPITAS
BONDED DEBT PLEDGED REVENUE COVERAGE
REDEVELOPMENT AGENCY TAX ALLOCATION BONDS
LAST TEN FISCAL YEARS**



Fiscal Year	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2005	\$25,215,408	\$5,160,555	\$20,054,853	\$5,560,000	\$9,163,896	\$14,723,896	1.36
2006	28,606,441	5,867,736	22,738,705	3,660,000	9,062,546	12,722,546	1.79
2007	28,413,636	5,886,749	22,526,887	3,750,000	8,965,234	12,715,234	1.77
2008	32,259,656	6,740,250	25,519,406	3,855,000	8,860,665	12,715,665	2.01
2009	36,167,427	7,876,041	28,291,386	3,960,000	8,728,458	12,688,458	2.23
2010	37,162,281	8,175,650	28,986,631	5,035,000	8,548,558	13,583,558	2.13
2011	36,353,737	7,800,736	28,553,001	5,240,000	8,548,559	13,788,559	2.07
2012	31,866,464 (b) (d)	0 (b)	31,866,464	5,410,000 (c)	8,182,883 (c)	13,592,883	2.34
2013	33,401,413 (d)	0 (b)	33,401,413	5,595,000 (d)	7,973,533 (d)	13,568,533	2.46
2014	40,418,284 (d)	0 (b)	40,418,284	5,825,000 (d)	7,713,234 (d)	13,538,234	2.99

- (a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency. The Successor Agency collects Property Taxes, with no distinction between housing and non-housing revenues, which are used for the repayment of the former Redevelopment Agency's Bonds.
- (c) Includes debt service paid by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution.
- (d) Tax increment reported in this table after the dissolution date is the amount calculated by the County Auditor-Controller as available for payment of enforceable obligations. Under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. Debt service reported was paid by the Successor Agency.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2014

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2013-14 Assessed Valuation, Direct and Overlapping Debt		<u>\$12,813,358,274</u>
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	3.831%	\$30,828,057
San Jose- Evergreen Community College District	11.740%	50,698,597
Milpitas Unified School District	98.984%	87,585,992
East Side Union High School District	0.348%	2,307,804
Berryessa Union School District	2.291%	687,484
Santa Clara Valley Water District Benefits Assessment District	3.831%	4,407,374
City of Milpitas 1915 Act Bonds	100%	<u>8,995,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>185,510,308</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
Santa Clara County General Fund Obligations	3.831%	29,031,867
Santa Clara County Pension Obligations	3.831%	14,382,307
Santa Clara County Board of Education Certificates of Participation	3.831%	372,756
San Jose- Evergreen Community College District OPEB Bonds	11.740%	5,570,630
East Side Union High School District OPEB Bonds	0.348%	107,167
City of Milpitas	100%	0
Santa Clara County Vector District Certifications of Participations	3.831%	<u>125,465</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		49,590,192
Less: Santa Clara County supported obligations		<u>(20,438,256)</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$29,151,936</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u>	100%	<u>\$152,110,000</u>
TOTAL DIRECT DEBT		<u><u>\$0</u></u>
TOTAL GROSS OVERLAPPING DEBT		<u>\$387,210,500</u>
TOTAL NET OVERLAPPING DEBT		<u>\$366,772,244</u>
GROSS COMBINED TOTAL DEBT		<u>\$387,210,500</u> (2)
NET COMBINED TOTAL DEBT		<u><u>\$366,772,244</u></u>

- (1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 1.45%

Ratios to Assessed Valuation:
Direct Debt % 0.00%
Total Gross Debt % 3.02%

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2013-14

Assessed value (net) - June 30, 2014	<u>\$12,813,359</u>
Debt limit: 3.75% of assessed value (a)	\$480,501
Debt applicable to limit	
Total Bonded Debt	\$0
Less: Tax Allocation Bonds not subject to limit	0
Amount of Debt subject to limit	<u>0</u>
Legal debt margin	<u>\$480,501</u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2004-05	\$350,211	0	\$350,211	0.0%
2005-06	373,520	0	373,520	0.0%
2006-07	386,975	0	386,975	0.0%
2007-08	416,601	0	416,601	0.0%
2008-09	451,001	0	451,001	0.0%
2009-10	450,946	0	450,946	0.0%
2010-11	446,703	0	446,703	0.0%
2011-12	431,188	0	431,188	0.0%
2012-13	446,277	0	446,277	0.0%
2013-14	480,501	0	480,501	0.0%

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in being assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

Source: City of Milpitas Finance Department
Santa Clara County Tax Assessor's Office

CITY OF MILPITAS
 INSTALLMENT PAYMENT COVERAGE
 SEWER CERTIFICATES OF PARTICIPATION
 LAST SEVEN FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2007-08	\$11,508,195	\$6,208,050	\$5,300,145	\$375,000	\$353,893	\$728,893	7.27
2008-09	10,703,586	9,838,790	864,796	345,000	406,212	751,212	1.15
2009-10	10,896,264	6,196,015	4,700,249	355,000	331,793	686,793	6.84
2010-11	11,752,362	6,420,615	5,331,747	370,000	319,468	689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34
2013-14	13,235,908	7,834,220	5,401,688	405,000	278,965	683,965	7.90

NOTE: The Certificates of Participation were issued on November 28, 2006.

- (1) Gross Revenues include sewer service charges, other operating revenues, and interest income. Gross Revenues exclude connection fees and capital contributions.
- (2) Operating Expenses include sewer treatment services, personnel services, services and supplies, and repairs and maintenance expenses. Operating Expenses exclude depreciation and amortization expenses.

CITY OF MILPITAS
BIMONTHLY SEWER RATES BY CUSTOMER CLASS
LAST TEN FISCAL YEARS

Fiscal Year	Residential			Commercial		(a)
	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges	
2004-05	50.25	36.48	22.76	8.48	0.01 - 4.89	
2005-06	54.77	39.49	24.57	9.24	0.02 - 3.50	
2006-07	59.70	43.14	26.88	10.08	0.02 - 3.93	
2007-08	59.70	43.14	26.88	10.08	0.02 - 3.93	
2008-09	59.70	43.14	26.88	10.08	0.02 - 3.93	
2009-10	65.08	46.49	28.73	10.99	0.97 - 6.52	
2010-11	70.94	50.68	31.18	11.98	0.72 - 7.61	
2011-12	72.95	51.06	33.36	12.82	2.38 - 6.99	
2012-13	75.92	51.06	33.36	13.72	2.38 - 6.99	
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99	

Source: City of Milpitas, Engineering Department

(a) For each one hundred cubic feet of water used. Charge varies depending on the business or type of business.

CITY OF MILPITAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Dollars in Thousands)

<u>Fiscal Year</u>	<u>Population</u>	<u>Population Density (Sq. Mile)</u>	<u>Total Personal Income (a), (b)</u>	<u>Per Capita Personal Income (a)</u>	<u>School Enrollment</u>	<u>Unemployment Rate (%) (a)</u>	<u>Land Area (Sq. Mile)</u>
2004-05	64,998	4,758	\$3,184,902	49	9,602	5.60%	13.66
2005-06	65,276	4,779	3,263,800	50	9,748	4.40%	13.66
2006-07	66,568	4,873	3,661,240	55	9,682	4.70%	13.66
2007-08	69,419	5,082	4,095,721	59	9,590	5.90%	13.66
2008-09	70,817	5,184	4,178,203	59	9,649	11.80%	13.66
2009-10	71,553	5,238	4,150,074	58	9,802	11.30%	13.66
2010-11	71,552	5,238	4,078,464	57	9,887	10.30%	13.66
2011-12	67,476	4,940	4,116,036	61	9,949	8.70%	13.66
2012-13	67,894	4,970	4,481,004	66	10,033	6.80%	13.66
2013-14	70,092	5,007	(c)	(c)	10,156	5.40%	14.00

(a) For Santa Clara County.

(b) Data not available for the City, therefore the balance reported is the product of the County's Per Capita Personal Income and the City's population.

(c) Data for fiscal year 2013-14 is not available until May of 2015.

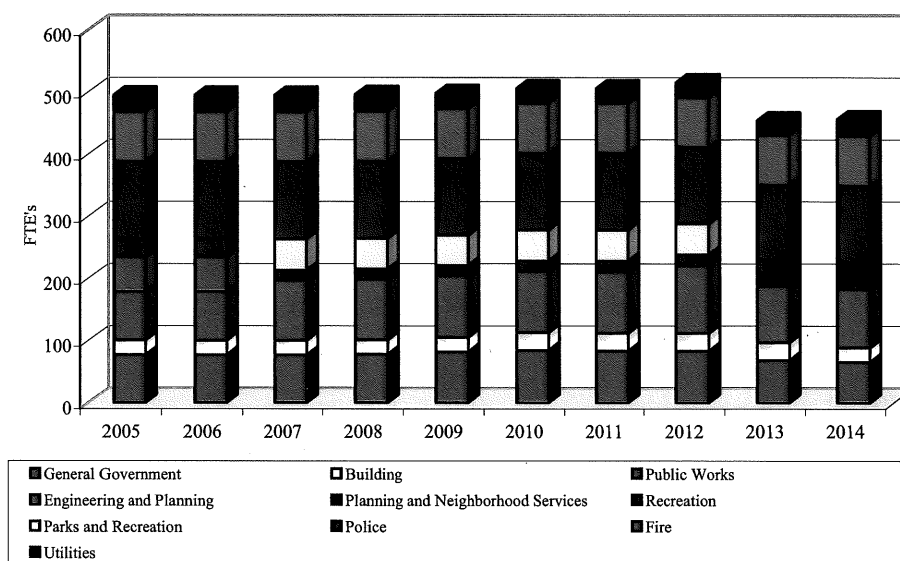
Sources: California Department of Education
California Employment Development Department
State of California, Department of Finance.
U.S. Department of Commerce, Bureau of Economic Analysis

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2013-14 and 2004-2005

Employer	2013-14			2004-2005		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,816	1	11.43%	3,000	2	8.98%
KLA-Tencor Corporation	2,402	2	7.19%	1,000	7	2.99%
SanDisk Corporation	1,875	3	5.61%			
Linear Technology Corporation	1,240	4	3.71%	900	8	2.69%
Flextronics International	1,200	5	3.59%			
Milpitas Unified School District	841	6	2.52%	849	9	2.54%
FireEye, Inc	702	7	2.10%			
Headway Technologies	699	8	2.09%			
Spectra Laboratories	350	9	1.05%			
Kaiser Permanente	350	10	1.05%			
Great Mall				3,000	1	8.98%
Lifescan, Inc.				2,500	3	7.49%
LSI Logic Corporation				1,320	4	3.95%
Seagate Technology				1,100	5	3.29%
Solelectron California				1,000	6	2.99%
Adaptec Inc.				505	10	1.51%
Subtotal	<u>13,475</u>		<u>40.34%</u>	<u>15,174</u>		<u>45.43%</u>
Total Labor Force			33,400			33,400

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS



Function	Adopted for Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	77.3	77.0	77.0	78.0	82.0	84.5	83.5	83.5	68.5	65.5
Building and Safety	23.0	23.0	23.0	23.0	23.0	28.0	28.0	28.0	28.0	23.0
Public Works	78.8	79.0	97.0 (a)	98.0	99.0	99.0	99.0	109.0	91.0	94.5
Engineering and Planning	55.5	55.5	(a)							
Planning and Neighborhood Services			16.5 (a)	16.5	17.0	17.0	18.0	18.0	16.5	18.5
Recreation	29.0	29.0	(a)	(a)					25.5 (b)	25.5
Parks and Recreation			50.0 (a)	49.0	48.5	49.5	49.5	49.5	(b)	(b)
Police:										
Sworn Police	94.0	94.0	94.0	94.0	94.5	94.5	94.5	94.0	91.5	92.0
Civilians	30.5	30.5	30.5	30.5	29.0	29.0	29.0	29.0	29.5	30.0
Fire:										
Firefighters and Safety	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Utilities	27.0	27.0	27.0	27.0	25.0	24.5	24.5	24.5	24.0	27.5
Total	495.0	495.0	495.0	496.0	498.0	506.0	506.0	515.5	454.5	456.5

(a) The City departments were reorganized in fiscal year 2007.

(b) Beginning in fiscal year 2013, parks maintenance division is now under public works department and recreation division is part of human resources department, but it is reported separately here.

Source: City of Milpitas, final budget

**CITY OF MILPITAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year				
	2005	2006	2007	2008	2009
Building and Safety					
Building permits issued	3,156	3,788	3,500	3,500	3,500
Plan checked performed	650	1,181	1,000	1,000	1,000
Public Works					
Street miles maintained	138	139	139	139	139
Customer Service Requests	3,500	3,326	3,208	3,500	3,924
Development projects reviewed	n/a	293	190	150	100
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	1,620	1,802	1,470	1,100	1,250
Applications to Planning Commission	120	150	165	150	112
Parks and Recreation					
Sports Center members	6,500	7,508	7,885	8,278	8,500
Senior nutrition meals served	16,932	19,421	20,667	21,165	23,228
Athletic Field maintenance (hours)	1,947	1,947	1,947	1,946	2,242
Police					
Avg response time to emergency calls (minutes)	3:44	3:12	3:06	3:06	2:46
Number of anti-terrorist patrol checks	10,664	12,813	12,300	3,500	3,500
Crime prevention presentations	180	179	190	240	275
Number of vehicle citations issued	14,453	14,161	10,624	12,386	11,558
DARE presentations: schools/students	14/1579	13/1538	14/1572	14/1492	13/1440
Fire					
Emergency calls for service	4,200	4,250	4,000	4,368	4,300
Public education events	73	70	65	80	70
Permits Inspections	2,514	4,231	4,300	5,400	4,000
Plan Review	845	1,005	1,000	750	995
Utility					
Clean sewer lines (feet)	500,000	500,000	500,000	500,000	500,000
Repair, replace or set water meters	422	425	600	580	700
Average daily consumption (thousands of gallons)	10,090	9,162	9,693	9,693	8,870

Source: City of Milpitas, final budget

Fiscal Year				
2010	2011	2012	2013	2014
2,700	2,800	2,800	3,400	4,300
800	800	800	1,100	1,500
139	139	139	139	139
3,900	3,000	3,350	3,500	2,880
118	225	200	200	205
980	800	725	725	725
84	45	96	106	159
10,000	1,200	1,400	1,600	1,450
24,056	23,076	23,304	22,090	20,656
2,100	1,641	n/a	n/a	n/a
2:47	2:49	2:42	2:32	2:33
1,469	1,469	1,693	1,996	2,550
266	281	235	201	200
11,391	8,544	6,901	4,120	3,516
12/850	11/845	12/770	0	0
4,400	4,400	4,075	4,356	4,356
90	80	120	45	45
4,000	4,000	4,334	4,510	4,510
1,000	900	671	807	807
500,000	550,000	500,000	329,313	640,255
500	380	491	149	298
9,200	8,100	8,200	9,340	9,300

CITY OF MILPITAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	2005	2006	2007	2008	2009
Public Works					
Miles of streets	137	139	139	139	138
Street lights	4,346	4,354	4,354	4,435	4,460
Square feet of buildings maintained (in thousands)	350	350	350	350	350
City vehicles	631	635	635	630	617
Signs	7,250	7,167	7,400	8,000	8,131
Signal lights	68	68	68	68	71
City Parks	26	26	29	32	32
Acres of Parkland	172	172	172	172	179
Playgrounds	32	32	30	29	37
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	3	3	4	4	3
Tennis courts	22	22	22	22	24
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	13	13	13	13	13
Basketball courts	5	5	5	5	5.5
Volleyball courts	7	7	7	7	7
Handball courts	4	4	4	4	4
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	30	30	28	27	28
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	13	14	16	14	14
Fire hydrants	1,755	1,756	1,756	1,809	1,756
Utility					
Miles of water mains	203	204	204	206	204
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	16.21	15.64
Miles of sanitary sewers	173	173	173	177	173
Miles of storm drain	99	105	105	107	106
Miles of recycled water main	11.0	11.0	11.0	11.0	11.0

Source: City of Milpitas, final budget

Fiscal Year				
2010	2011	2012	2013	2014
139	139	287	287	287
4,496	4,496	4,500	4,500	4,500
350	427	376	376	376
622	622	247	242	252
8,363	8,363	8,534	8,534	5,500
71	71	72	72	72
29	31	31	33	34
179	178	179	179	180
33	33	33	24	25
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
4	4	3	3	3
20	17	20	20	20
1	1	1	1	1
15	15	12	8	8
5	2	3	9	9
5.0	5.0	4.0	8	8
5	4	5	4	9
1	1	1	5	5
2	2	2	2	2
28	28	27	27	29
4	4	4	4	4
13	15	13	22	19
1,840	1,840	1,840	1,840	1,847
213	213	213	213	214
16.26	16.26	16.26	16	16
178	178	179	179	179
110	110	110	110	110
3.1	3.1	3.9	4	4



CITY OF MILPITAS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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CITY OF MILPITAS
SINGLE AUDIT REPORT
For The Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs.....	1
Section I - Summary of Auditor's Results.....	1
Section II – Financial Statement Findings.....	2
Section III – Federal Award Findings and Questioned Costs.....	2
Section IV - Status of Prior Year Findings and Questioned Costs.....	2
Schedule of Expenditures of Federal Awards.....	3
Notes to Schedule of Expenditures of Federal Awards.....	5
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on An Audit Of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	7
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report On The Schedule of Expenditures of Federal Awards Required By OMB Circular A-133	9

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CITY OF MILPITAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.218</u>	<u>U.S. Department of Housing and Urban Development – Community Development Block Grant/ Entitlement Grants</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies, but no material weaknesses or instances of noncompliance material to the basic financial statements, which are included in our separate Memorandum on Internal Control dated October 16, 2014 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported

Federal Award Prior Year Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.

CITY OF MILPITAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development Direct Program:			
Community Development Block Grant/Entitlement Grants	14.218		
Loan Expenditures			\$141,351
Program Expenditures			112,851
Subgrants			278,054
Loan program cash balance at the end of the year			<u>161,405</u>
Total Department of Housing and Urban Development			<u>693,661</u>
U.S. Department of Transportation Pass-Through Program From:			
State of California Office of Traffic Safety			
County of Santa Clara	20.608	AL1419	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated			
Avoid the 13th Under the Influence Campaign			<u>6,604</u>
U.S. Department of Homeland Security Direct Programs:			
Assistance to Firefighters	97.044		54,868
National Urban Search and Rescue Response System	97.025		<u>312</u>
Total Department of Homeland Security			<u>55,180</u>
U.S. Department of Health and Human Services Pass-Through Program From:			
County of Santa Clara Social Services Agency Department of Aging and Adult Services			
Special Programs for the Aging-Title III, Part C-Nutrition Services			
Nutrition Program for the Elderly	93.045	AP-1314-14	<u>77,085</u>
Total Expenditures of Federal Awards			<u><u>\$832,530</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF MILPITAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For The Year Ended June 30, 2014

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Milpitas, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of the City Council
City of Milpitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Milpitas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014. Our report included a reference to other auditors and a paragraph on the restatement of beginning fund balances and net position.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated October 16, 2014 which is an integral part of our audits and should be read in conjunction with this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated October 16, 2014 which is an integral part of our audits and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mane & Associates

Pleasant Hill, California
October 16, 2014

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Members of the City Council
City of Milpitas, California

Report on Compliance for Each Major Federal Program

We have audited City of Milpitas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated October 16, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Pleasant Hill, California
October 16, 2014

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
COMPLIANCE WITH THE PROPOSITION 111
2013-2014 APPROPRIATIONS LIMIT INCREMENT**

Honorable Mayor and Members of the City Council
City of Milpitas, California

We have performed the procedures below to the Appropriations Limit Worksheet which were agreed to by the City of Milpitas for the year ended June 30, 2014. These procedures, which were suggested by the League of California Cities and presented in their Article XIII B Appropriations Limitation Uniform Guidelines were performed solely to assist you in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. Management is responsible for the Appropriations Limit Worksheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures you requested us to perform and our findings were as follows:

- A. We obtained the Appropriations Limit Worksheet and determined that the 2013-2014 Appropriations Limit of \$77,489,247 and annual adjustment factors were adopted by Resolution of the City Council. We also determined that the population and inflation options were selected by a recorded vote of the City Council.
- B. We recomputed the 2013-2014 Appropriations Limit by multiplying the 2012-2013 Prior Year Appropriations Limit by the Total Growth Factor.
- C. For the Appropriations Limit Worksheet, we agreed the Per Capita Income, City Population and County Population Factors to California State Department of Finance Worksheets.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of management and the City Council; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Maze & Associates

Pleasant Hill, California
May 1, 2014

CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014

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CITY OF MILPITAS
Bicycle/Pedestrian Projects
Financial Statements
For the Year Ended June 30, 2014

Table of Contents

	<u>Page</u>
<i>Independent Auditor's Report</i>	1
<i>Fund Financial Statements:</i>	
Comparative Balance Sheet	3
Comparative Statement of Revenues and Expenditures.....	4
Notes to Financial Statements	5
<i>Independent Auditor's Report on Internal Control Over Financial Reporting, on Compliance with the Transportation Development Act and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	7

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the City Council
City of Milpitas, California

Report on Financial Statements

We have audited the financial statements of the City of Milpitas Bicycle/Pedestrian Projects (Projects) of the City of Milpitas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

As discussed in Note 1, the financial statements present only the Projects and are not intended to present fairly the financial position and results of operations of the City of Milpitas, in conformity with generally accepted accounting principles in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Projects as of June 30, 2014, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014, on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Maye & Associates". The script is fluid and cursive, with the first letters of "Maye" and "Associates" being capitalized and prominent.

Pleasant Hill, California
October 16, 2014

CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
COMPARATIVE BALANCE SHEET
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Receivable from MTC	<u>\$0</u>	<u>\$26,686</u>
Total Assets	<u><u>\$0</u></u>	<u><u>\$26,686</u></u>
LIABILITIES		
Due to the City	<u>\$0</u>	<u>\$26,686</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - receivable from MTC	<u>0</u>	<u>26,686</u>
FUND BALANCE (DEFICIT)		
Unassigned	<u>0</u>	<u>(26,686)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance (Deficit)	<u><u>\$0</u></u>	<u><u>\$26,686</u></u>

See accompanying notes to financial statements

CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
TDA Article 3.0 (Note 2)	<u>\$105,974</u>	<u>\$0</u>
Total Revenues	<u>105,974</u>	<u>0</u>
EXPENDITURES		
Enhanced Crosswalk Improvements Phase 2	34,238	
ADA Curb Ramps	<u>45,050</u>	<u>26,686</u>
Total Expenditures	<u>79,288</u>	<u>26,686</u>
Net change in fund balance	26,686	(26,686)
Fund balance (deficit) at beginning of year	<u>(26,686)</u>	<u>0</u>
Fund balance at end of year	<u><u>\$0</u></u>	<u><u>(\$26,686)</u></u>

See accompanying notes to financial statements

**CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
--

The City of Milpitas has developed the Bicycle/Pedestrian Projects (Projects) under the Transportation Development Act (TDA), Article 3.0 for the construction of pedestrian pathways and wheelchair ramps and bicycle master plan studies. The Projects are funded by TDA grants.

The following is a summary of significant accounting policies applicable to the Projects which conform to generally accepted accounting principles as applicable to governments.

A. *Fund Accounting*

The Projects are accounted for as part of the Capital Projects Fund of the City of Milpitas. This fund is a set of self-balancing accounts which comprise its assets, deferred inflows/outflows of resources, liabilities, fund equity, revenues and expenditures.

B. *Basis of Accounting*

Basis of accounting refers to when revenues and expenditures are recognized. The Projects are accounted for in a governmental fund type and the modified accrual basis of accounting is used. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The Projects considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recognized when they are incurred.

C. *Deferred Inflows and Deferred Outflows of Resources*

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Projects have only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF MILPITAS
BICYCLE/PEDESTRIAN PROJECTS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2014**

NOTE 2 - TDA ARTICLE 3.0 REVENUE

As of June 30, 2014 the City had allocation instructions from the Metropolitan Transportation Commission for the following projects:

<u>Instruction Number</u>	<u>Project Name</u>	<u>Grant Award</u>	<u>Expended to June 30, 2014</u>	<u>Revenue in fiscal 2014</u>
11001033	Enhanced Crosswalk Improvements Phase 2	\$26,686	\$26,686 (A)	\$26,686
12001039	Enhanced Crosswalk Improvements Phase 2	34,238	34,238	34,238
13001024	ADA Curb Ramps	45,050	45,050	45,050
14001036	Construction of ADA Ramps	84,506		
		<u>\$190,480</u>	<u>\$105,974</u>	<u>\$105,974</u>

(A) Expenditures were incurred in fiscal year 2013, but revenues were not received until fiscal year 2014.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING, ON COMPLIANCE WITH THE TRANSPORTATION
DEVELOPMENT ACT AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Members of the City Council
City of Milpitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Milpitas Bicycle/Pedestrian Projects (Projects) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Project's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Project's internal control. Accordingly, we do not express an opinion on the effectiveness of Project's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Project's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our procedures included the applicable audit procedures contained in §6666 of Title 21 of California Code of Regulations and tests of compliance with the applicable provisions of the Transportation Development Act and the allocation instructions and resolutions of the Metropolitan Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated October 16, 2014 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Project's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Metropolitan Transportation Commission, management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Pleasant Hill, California
October 16, 2014

CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2014

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**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2014

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>.....	1
Schedule of Significant Deficiencies	3
Schedule of Other Matters.....	5
Status of Prior Year Schedule of Other Matters	11
<i>Required Communications</i>	23
Significant Audit Findings	23
<i>Accounting Policies</i>	23
<i>Unusual Transactions, Controversial or Emerging Areas</i>	24
<i>Estimates</i>	25
<i>Disclosures</i>	26
<i>Difficulties Encountered in Performing the Audit</i>	26
<i>Corrected and Uncorrected Misstatements</i>	26
<i>Disagreements with Management</i>	27
<i>Management Representations</i>	27
<i>Management Consultations with Other Independent Accountants</i>	27
<i>Other Audit Findings and Issues</i>	27
Other Information Accompanying the Financial Statements	27

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Milpitas, California

We have audited the basic financial statements of the City of Milpitas for the year ended June 30, 2014, and have issued our report thereon dated October 16, 2014. Our opinions on the basic financial statements and this report, insofar as they relate to Terrace Gardens, Inc., are based solely on the report of other auditors. In planning and performing our audit of the basic financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the City.

Management responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze & Associates' in a cursive, flowing script.

Pleasant Hill, California
October 16, 2014

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**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2014-01 Develop Procedures to Ensure Proper Classification of Developer Fees

Developer fees collected should be recorded in the applicable fund for which they are paid.

During fiscal year 2014, City staff determined that water and sewer developer fees collected in prior years in the amounts of \$303,301 and \$1,992,758, respectively, had been incorrectly recorded in the Street Improvement Capital Projects Fund, but should have been recorded in the Water and Sewer Funds. City staff had recorded the corrections as interfund transfers, however the balances were significant to each fund and therefore should have been recorded as a restatement of the beginning balances.

When the fees were collected in May 2010, the misposting was caused by staff oversight.

As a result of the misposting of the developer fees, the cash and developer fee balances in the Water and Sewer Enterprise Funds were understated and the balances in the Street Improvement Capital Projects Fund were overstated.

City staff must establish procedures to ensure that the general ledger postings for the collections of developer fees are reviewed in detail to ensure they are recorded in the correct fund(s).

Management's Response:

The City will carefully review the developer fee and record to the appropriate fund(s) in the general ledger in the future.

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**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2014-02 Compliance with CAL-Card Manual

The City's CAL-Card Manual includes the following provisions related to the use of CAL-Cards and approval of the related purchases:

- i. Monthly Statements of Accounts must be reviewed, reconciled, and approved by the Department Head.
- ii. A maximum of 10 calendar days are allowed for the review and reconciliation of the Statement of Account once the Cardholder receives the Statement.
- iii. Single transaction limit of limit of \$3,000.
- iv. The Finance Department will periodically perform audits on all credit card statements to determine compliance with the City of Milpitas policies and procedures.

In addition, the City's Credit Card Policy states that purchase orders are required to be processed through the Purchasing Division in Finance for all purchases \$5,000 and over.

We selected CAL-Card transactions for testing of compliance with the Manual during the prior year audit, and noted a number of exceptions as discussed in prior year comment 2013-02. To see if procedures had been revised in the current year, we selected one transaction each for five CAL-Card holders to test for compliance with the CAL-Card policies and noted the following:

- i. One Department Head's statement for December 2013 did not indicate the date on which the statement was reviewed; therefore we were unable to determine if the statement was reconciled within ten days under the prescribed policy in place.

Approving officials should be reminded to include the date of the review on the Statements to demonstrate compliance with the 10-day review limitation.

However, we understand that the 10-day limitation was implemented due to the timing of payment requirements of the City's prior CAL-Card vendor. City staff indicated that the current practice is to review the statements within 14 days, because the new vendor's payment requirements provide additional time for review. The City should either comply with the 10-day review requirement or amend the Manual to reflect the current practice.

- ii. One Department Head made a purchase over the \$3,000 single purchase limit. And, the purchase was in the amount of \$6,264, but did not have a required purchase order. We did note that the card holder used an informal bid process prior to making the purchase, but the transaction is still not in compliance with the requirements of the CAL-Card Manual and the Credit Card Policy.

We then obtained the detail of the CAL-Card transactions the card holder made between October 2013 to April 2014 and noted a second transaction over the \$3,000 single purchase limit (\$3,189).

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2014-02 Compliance with CAL-Card Manual (Continued)

We were unable to determine why the card holder was allowed to make purchases in excess of the single purchase limit, since the CAL-Card manual indicates that single purchases over \$3,000 will be declined.

The City should immediately correct the card holder's single purchase limit to be in compliance with the CAL-Card Policy, or revise the Policy to reflect the current practices. And, in the event purchases do exceed \$5,000, they should be accompanied with a purchase order to comply with the provisions of the City's Credit Card Policy. City staff indicated that CAL-Card purchases are not expected to be accompanied by a purchase order, but that is not clear because the credit card policy is included as a reference in the CAL-Card Manual.

The City should review its CAL-Card and Credit Card Policies to ensure there are not additional inconsistencies between the two documents, revise each Policy to eliminate inconsistencies and either conform the current procedures to the requirements of the Policies or revise the Policies to reflect the current practices.

Management's Response:

The City is in the process of reviewing the current policies and will revise procedures to address the above issues.

2014-03 Police Station Cash Collection Procedures

Daily cash collections should be reconciled to the cash register-generated cash summary report for accuracy and completeness. Pre-numbered cash receipts should be used and accounted for sequentially during the daily cash reconciliation. And, voided receipts should be included in the cash receipt report and approved by an employee not involved in the cash receipt processing.

We reviewed the cash collection procedures at the Police Station and noted the following:

- i. Cash receipts are reconciled to a manually created report by the employees processing cash receipts. The Department does not use a cash register to process transactions.
- ii. Pre-numbered cash receipts are not generated.
- iii. Voided receipts are not reviewed by employees not involved in cash receipt processing, and without the use of prenumbered receipts voided transactions could go undetected.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

2014-03 Police Station Cash Collection Procedures (Continued)

We understand that the Police Station staff believes there is no issue with the cash reconciliation process as two employees are always present during the reconciliation and that voided receipts are reviewed at that time. However, without the reconciliation of the daily cash collections to a collection report and the accounting for the sequential receipt numbers, the daily cash reconciliations cannot be relied upon.

The Police Department should utilize a cash register-generated summary report of cash collections to the daily collections. In addition, we recommend cash receipts be pre-numbered so inconsistencies can be identified in the normal course of cash receipt reconciliations. Finally, voided receipts should be approved by an employee not handling the cash receipts and evidenced by a signature sign-off on the reconciliation report or some other formal method of documentation.

The City should review the cash collection procedures at the Police Station to ensure the above controls are implemented.

Management's Response:

The City is planning to purchase a new software from an outside vendor to improve the receipt system. We will also revise the reconciliation procedure to ensure there is a review process implemented in the Police Department.

2014-04 Health and Safety Code Expenditure Limitations and Reporting Requirements for the Housing Successor

Senate Bill No. 341 was approved on October 13, 2013 and amended and added to the Health and Safety Code (HSC) effective January 1, 2014 to change provisions relating to the functions performed by a Housing Successor.

The amendments to HSC Section 34176 are minor and primarily include defining the "entity that assumed the housing functions of a former redevelopment agency" as the Housing Successor.

HSC Section 34176.1 is new and imposes spending limitations and reporting requirements related to the housing assets of the former Redevelopment Agency held by the Housing Successor.

The City serves as Housing Successor for the housing activities of the former Milpitas Redevelopment Agency and the activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund.

The City, as Housing Successor, should develop procedures to ensure ongoing compliance with the provisions of HSC Section 34176.1, including the expenditure limitations and annual reporting requirements.

Management's Response:

The City has developed a procedure to ensure the compliance with the provisions of HSC Section 34176.1. The City will also monitor the expenditure limitation and will comply with the annual reporting requirement listed in the HSC 34176.1.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENT NOT YET EFFECTIVE

The following comment represents a new pronouncement taking affect in the next fiscal year. We cite it here to keep you informed of developments:

EFFECTIVE FISCAL 2015:

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions* discussed in the Current Status of Prior Year Schedule of Other Matters section below. The issue relates to determining the beginning balances of deferred inflows and outflows required under the provisions of GASB Statement No. 68 and amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68 (Continued)

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

Management Response:

The City intends to implement upon its effective date.

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**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

2013-01 Transportation Development Act Grant Administration

In accordance with Article 3 and California Code 6666, the City should incur expenditures and request funding reimbursement within the dates specified in the Metropolitan Transportation Commission Allocation Instruction for the Transportation Development Act (TDA) Grants. TDA grants are requested by the City for specific projects and have an available funding window of two to three years before they expire and revert back to the grantor.

During both the interim and final phases of the fiscal year 2013 audit we were informed no TDA funds had been expended in the fiscal year 2013. After we noted one Allocation Instruction received July 28, 2010 was about to expire on September 30, 2013 and that expenditures had to be incurred prior to June 30, 2013, our further inquiry revealed that the City had incurred expenditures early in fiscal year 2013 for the Enhanced Crosswalk Improvements Phase 2 Project (Allocation Instruction#11001033) which were eligible for reimbursement by the TDA grant, but the grant reimbursement had not been filed during the fiscal year. When City staff attempted to file the grant reimbursement on September 27, 2013, it was initially rejected by the grantor as late, because the grantor indicated that they had sent a letter to the City in April 2013 with a revised reimbursement request filing deadline of August 31, 2013. Although the City disputed the reimbursement denial and was able to obtain subsequent approval, the grant should have been managed such that reimbursement requests were filed in a timely manner soon after the eligible costs were incurred.

The City must develop procedures to monitor its outstanding TDA grant allocation instructions to ensure the grants are administered properly and costs are incurred within the grant time limits to minimize the chance of jeopardizing the funding of project costs that were already incurred. When project costs are incurred in anticipation of being reimbursed by a grant, the lack of reimbursement means the City has to find alternative funding. The procedures to be developed should include a process for filing periodic reimbursement requests with the grantor. Reimbursement requests should be prepared at least quarterly after costs are incurred, rather than at the end of the project or grant period.

Current Status:

Implemented. The City currently programs TDA Articles 3 into the Annual Street Resurfacing projects, which include the installation of new American with Disabilities Act (ADA) pedestrian ramps which are eligible for reimbursement through TDA. The City has received two reimbursements in fiscal year 2014 from MTC.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

2013-02 Compliance with CAL-Card Manual and Procedures over Review and Approval of Monthly Statements

The City's CAL-Card Manual includes the following provisions related to the use of CAL-cards and approval of the related purchases:

- A maximum of 10 calendar days are allowed for the review and reconciliation of the Statement of Account once the Cardholder receives the Statement
- If a transaction receipt has been lost or not issued, the Cardholder is required to submit a Missing Receipt/ Invoice Form and attach it to the Statement of Account. The form must be signed by both the Cardholder and the Department Head.
- Monthly Statements of Accounts must be reviewed, reconciled, and approved by the Department Head.
- The Cardholder is required to submit proper documentation to verify the invoice/ receipt against each transaction in the Statement of Account.
- The Finance Department will periodically perform audits on all credit card statements to determine compliance with City of Milpitas policies and procedures.

City-wide CAL-Card expenditures for the fiscal year totaled \$148 thousand. We selected six CAL-Card holders for testing with three to six transactions for each cardholder for a total of twenty-five transactions for testing of compliance with the Cal-Card Manual requirements. During our testing, we noted the following:

- i. Of the six employees' Statements of Account tested, four were not reviewed and approved by the department heads within the 10 day allowance. See below:

	<u>Received by Cardholder</u>	<u>Approved by Department Head</u>	<u>Received By Finance Department</u>
1.	4/1/13	4/16/13	4/17/13
2.	4/1/13	4/16/13	4/17/13
3.	4/1/13	4/26/13	5/20/13
4.	4/1/13	4/26/13	5/20/13

- ii. Although in-line with the requirements of the Manual, we noted that one Department Head submitted a Missing Receipt / Invoice Form for all five transactions in the Statement of Account for March 2013.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

2013-02 Compliance with CAL-Card Manual and Procedures over Review and Approval of Monthly Statements (Continued)

- iii. One Department Head approves his own Statement of Account and Missing Receipt/ Invoice Forms. In addition, the Department Head signed his approval of the Statement of Account on April 26, 2013; however, the Missing Receipt/Invoice Forms were not signed until May 8, 2013. Additionally, upon further review of Statements of Account for the Department Head for the months of September, October, and November 2012, we noted that the Department Head's Secretary approved his Missing Receipt/Invoice Forms.
- iv. Missing Receipt/Invoice Forms were submitted for a Sprint cell phone bill and for iPad monthly Wi-Fi charges. Although these appear to be recurring automated monthly charges that do not involve traditional receipts, we noted in our testing that other employees had similar charges and submitted online confirmation emails showing the service period and amount of the bill.

The City should review its CAL-Card policies and procedures to ensure they address the issues noted above. All Department Heads should be assigned an Approving Official, such as the Finance Director or the City Manager, and excessive use of the missing receipt form should not be allowed. In addition, the City should provide a refresher training class for both users and Approving Officials to reiterate the CAL-Card Manual Policy guidelines and to enforce the City's policies.

Current Status:

The City is in the process of reviewing the current policies and will revise procedures to address the above issues.

See also current year comment 2014-02.

2013-03 Determining if Economic Development Corporation Project Expenditures are in Compliance with California Redevelopment Law

As discussed in prior year comment 2012-01, the former Redevelopment Agency entered into an operating agreement with the Economic Development Corporation and provided funding to the Corporation for redevelopment purposes consistent with the California Redevelopment Law and to implement and carry out the Redevelopment Plans for the Project area. Since this funding continues to be the primary source of funding for the Corporation, the expenditure of those funds must be in compliance with California Redevelopment Law.

Prior to funding a public project, the former Redevelopment Agency was required to make certain findings regarding the eligibility of the project for Agency funding. During fiscal year 2013, the Corporation funded three public projects: City Hall Audio Visual Equipment, Wrigley Ford Creek Dredging and Police Evidence Room Improvements. City staff was unable to determine whether the projects were preceded by, or required, the findings necessary to allow the redevelopment funds to be used for these public projects.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

2013-03 Determining if Economic Development Corporation Project Expenditures are in Compliance with California Redevelopment Law (Continued)

On February 25, 2013, the City and the Corporation entered into a Standstill Agreement with the Successor Agency to the former Redevelopment Agency to preserve the assets of the former Redevelopment Agency, including those that had been transferred to the Corporation. Although this agreement contained a provision that the Corporation could continue to fund existing obligations that included the three projects listed above, it is still not clear whether they were eligible for use of the former Redevelopment Agency funding.

The City should determine whether the project expenditures (\$1,001,924 during fiscal year 2013 and a total of \$1,595,738 to date) and any other expenditures of the Corporation are in compliance with the provisions of California Redevelopment Law, AB1x26 and AB1484. If the costs cannot be supported by documentation that shows they are in compliance with the requirements noted, the Corporation should obtain a different funding source for those costs and ensure that the Agency's funding is made whole. In addition, the City should continue to monitor the expenditures related to the former Redevelopment Agency's funding provided to the Corporation to ensure that they are in compliance with the operating agreement, the Standstill Agreement and California Redevelopment Law.

Current Status:

All monies related to the former Redevelopment Agency were paid to the County as part of a settlement agreement executed in June 2014.

2013-04 Accounting for Capital Lease

The City entered into a capital lease during fiscal year 2013 for the purchase and installation of a new City-wide phone system. When we started the audit, the outstanding balance of the lease in the general ledger was \$383,050. After we reviewed the lease agreement, we noted that it included a debt service schedule that did not agree to that outstanding principal balance or the maturity schedule provided by City staff. We also noted that the capital lease contained a provision for a vendor contribution of \$23,414 toward the principal repayment of the lease, but that payment had not been included in the City's accounting for the transaction. After further inquiry with City staff, they contacted the lessor and found that the vendor payment toward principal had been applied and City staff adjusted the outstanding balance of the lease in the general ledger to \$359,636 and revised the debt service schedule to agree to that in the lease agreement.

In the future, the City should review all debt agreements in detail to ensure provisions of the agreements are accurately reflected in the general ledger.

Current Status:

In the future, the City will review the debt agreement in detail to ensure the general ledger is accurately reflected.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

2013-05 Authorizing Signatures on Timesheets

Good internal controls and the City's policies require that timesheets should be signed by each employee and approved by a supervisor. In the event the employee is not available to sign their timecard, the City's policy is to have the timesheet signed by the supervisor and the department head.

We tested twenty-five employee timesheets for testing of approval and noted one Adult Crossing Guard's timesheet was not signed by the employee; it was only signed by the supervisor and a rubber stamp of the department head signature. We selected three additional timesheets and noted they were also signed only by the supervisor and department head's "stamp" signature.

Although City staff indicated that this procedure was standard practice for the crossing guards - they do not sign their timesheets, the supervisor performs site-visits to confirm their presence and the supervisor signs and department head stamps the timesheets – it does not correspond to the City's policy that all employees sign their timesheets.

The City should ensure that all employees sign their timesheets prior to processing them, but for situations in which the employee is unavailable for signature or the City's procedures do not require such a signature, it should be clearly documented on the timesheet.

Although we interviewed the department head and she appears to maintain control over her signature stamp, the City should have an authorization list for which employees can use a rubber stamp for timesheets.

Current Status:

The City has updated the process and has ensured the employees that are not available to sign, the supervisor will indicate "the employee is not available to sign" on the employee signature line to document their unavailability.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

2013-06 Periodic Review of the General Ledger Access Log

Employee access to the various modules of the General Ledger must be monitored periodically to ensure that the access of each individual is appropriate according to their specific job duties.

As we recommended in 2011, due to the new system implementation in that year, City staff found that the Access Log was not readily available in one document in the system. A document as important as this should be readily available to City staff throughout the year. The Access Log is an important tool for the City to monitor employee access to the financial system.

We understand that the City has worked with the software provider, Cayenta, to provide an Access Log from the financial system and it is now available as of May 2013. However, the Log is still in the testing phase and the City is still working with Cayenta to determine how a concise report of employee access to the key financial functions and duties can be produced. A designated managerial staff should review the system access periodically to ensure that access to the various system modules is authorized and appropriate.

Current Status:

The City is in the process of testing the access log and will develop a procedure to periodically review the system access.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you abreast of developments:

EFFECTIVE FISCAL 2014:

GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods **beginning after June 15, 2013**. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees (Continued)

How the Changes in this Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

Current Status:

The provisions of the Statement were not applicable to any of the City's fiscal year 2014 transactions. Future transactions will be reviewed to determine if it becomes applicable.

EFFECTIVE FISCAL 2015:

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have material impact on the City's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), less the amount of the pension plan's **fiduciary net position**.
- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)**

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Single and Agent Employers

- In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.
- The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.
- This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.
- The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.
- Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)**

- In governmental fund financial statements: A net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable **available** financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.
- Notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:
 - For the current year, sources of changes in the net pension liability
 - Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.
 - The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.
 - Required Supplementary Information: Single and agent employers are required to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:
 - Sources of changes in the net pension liability
 - The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.
 - Schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.
 - Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)**

Cost-Sharing Employers

- Government-wide and accrual basis of accounting financial statements: A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its **proportionate** share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.
- A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.
- In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.
- In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

**CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS**

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)
(Continued)**

- Notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.
- This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

Current Status:

The provisions of the Statement will be implemented in fiscal year 2015.

REQUIRED COMMUNICATIONS

To the City Council of
the City of Milpitas, California

We have audited the basic financial statements of the City of Milpitas for the year ended June 30, 2014. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2013, which represent 1.63%, 1.70%, and 0.88% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by another auditor, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditor.

Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, *Government Auditing Standards* and OMB Circular A-133.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Milpitas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

The following Governmental Accounting Standards Board (GASB) pronouncement became effective, but did not have a material effect on the financial statements:

GASB 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

However, transactions related to the dissolution of the former Redevelopment Agency continued to have a material impact to the financial statements of the City and its component units:

As discussed in Note 16 to the financial statements, the State enacted laws which dissolved Redevelopment Agencies effective January 31, 2012. The City elected to become a Housing Successor to the Redevelopment Agency and pursuant to the laws it received the encumbered housing assets of the former Redevelopment Agency. Certain other assets were distributed to and all of the Redevelopment Agency's debts were assumed by a Successor Agency governed by an Oversight Board. This Successor Agency is reported as a private purpose trust fund.

Also as discussed in Note 16, the Agency had transferred assets, including capital assets, totaling \$195,187,960 to the City and to the Economic Development Corporation during fiscal year 2011 under the terms of various agreements. However, under the provisions of Health and Safety Code Section 34171(d)(2) that was created by AB x1 26, agreements between the City and the Agency that were executed after December 31, 2010 are no longer enforceable obligations, and Health and Safety Code Section 34167.5 requires that if the entity that received the assets is not contractually committed to a third party for the expenditure or encumbrance of those funds that they be returned to the Successor Agency.

The activities of the former Redevelopment Agency and the Successor Agency were subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and as discussed in Note 16A to the financial statements, some of the assets were returned and others remained in the possession of the Economic Development Corporation. It is the City's position that the funds were legally placed with the Economic Development Corporation at the time of the transfer and are not subject to clawback. Therefore, assets totaling \$54,854,616, comprised of current assets of \$31,485,664 and capital assets of \$23,368,952, remained with the Economic Development Corporation as of June 30, 2013.

On February 25, 2013, the City, the Corporation and the Successor Agency executed a Standstill Agreement to preserve the assets of the former Redevelopment Agency that had been transferred to the Corporation and to the City. Under the Agreement, the Corporation agrees that it will not transfer, sell or convey any of the property conveyed by the Agency or purchased with assets transferred from the Agency, refrain from incurring new financial obligations and satisfy only its specific outstanding obligations and contracts that are listed in the Agreement, including the payments required for the Mission West Purchase Agreement discussed in Note 9B. Under the Agreement, the City agreed that it would not transfer, sell or convey any of the capital assets or property held for resale conveyed by the former Agency, that the General Fund will reimburse the Successor Agency for any Corporation payments on the contracts listed in the Agreement if a final judicial determination holds that the transfer was invalid or the obligation should not have been paid from Corporation funds, except for the Mission West Purchase Agreement. In the event there was a final judicial decision that the transfers to the City and/or Corporation were invalid and subject to the “clawback” provisions of AB1484, the City and Corporation agreed to return the assets to the Successor Agency.

The City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputed the results of the DDR and the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. The County and State filed responses to the City’s complaint. The two cases were coordinated and proceeded to a hearing on February 28, 2014. There has not been a final judicial or administrative determination regarding the legality of the retroactive provisions of ABx1 26 and AB1484.

The City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties entered into a settlement agreement in June 2014 to resolve the matters discussed above. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling \$48,330,371 to the Successor Agency and the Successor Agency was required to remit the cash in the amount of \$41,089,231 to the Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress in the amount of \$98,129,255 to the City. In addition, with the conveyance of certain parcels of land to the City, the City forgave the balance of the Purchase and Sale Agreement with the Successor Agency in the amount of \$9,472,571.

Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City’s financial statements are as follows:

Estimated Fair Value of Investments: As of June 30, 2014, the City held approximately \$176.9 million of cash and investments as measured by fair value as disclosed in Note 3 to the Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2014. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2014.

Estimated Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 8 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Compensated Absences: Accrued compensated absences, which are comprised of accrued vacation and sick leave, is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year, and are disclosed in Note 12 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the Redevelopment Agency dissolution and the terms of the settlement agreement with various parties in Note 16 to the financial statements. See discussion under *Unusual Transactions, Controversial or Emerging Areas* above regarding the unsettled law and highly contingent nature of these matters.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole, other than the adjustment to record the correction of developer fees as a restatement of the financial statements discussed in item 2014-01 of the Memorandum on Internal Control and adjustments to assist with the accounting for the transactions related to the settlement agreement discussed above.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated October 16, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

With respect to the required supplementary information accompanying the financial statements, applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

This information is intended solely for the use of City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Mark & Associates

Pleasant Hill, California
October 16, 2014